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ABSTRACT

This seventh hearing in a series related to the reauthorization of the Higher Education Act focused on the management structure of the Office of Postsecondary Education and the financial aid delivery system. In the opening statement, Chairman James M. Jeffords reported that the current system is outdated and inefficient and indicated that the committee was considering proposals for change that ranged from a performance-based system to privatizing student aid delivery. Testimony was given by David A. Longanecker and Betsy Hicks of the Department of Education who noted progress made in managing student financial aid programs and addressed changes still to come. Other witnesses included Brian Fitzgerald of the Advisory Committee on Student Financial Assistance (Washington, D.C.); Cornelia M. Blanchette of the U.S. General Accounting Office; Judith Flink, University of Illinois; Barmak Nassirian, American Association of State Colleges and Universities (Washington, D.C.); and Barbara Tornow, Boston University (Massachusetts) who all testified on the inadequacy of the present financial aid delivery system and its management structure. The document also contains transcripts of oral discussions and prepared statements by Senators John Warner (Virginia) and Christopher Dodd (Connecticut). (CH)

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S. HRG. 105–67

MANAGEMENT OF THE STUDENT AID DELIVERY SYSTEM

ED 411 757

HEARING

OF THE

COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

ON

EXAMINING PROPOSED LEGISLATION AUTHORIZING FUNDS FOR PROGRAMS OF THE HIGHER EDUCATION ACT, FOCUSING ON STUDENT AID DELIVERY SYSTEMS

MAY 15, 1997

Printed for the use of the Committee on Labor and Human Resources

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MANAGEMENT OF THE STUDENT AID DELIVERY SYSTEM

THURSDAY, MAY 15, 1997

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, DC.

The Committee met, pursuant to notice, at 10:22 a.m., in room SD–430, Dirksen Senate Office Building, Senator James M. Jeffords (chairman of the committee) presiding.

Present: Senators Jeffords and Coats.

OPENING STATEMENT OF SENATOR JEFFORDS

The CHAIRMAN. The Committee on Labor and Human Resources will come to order.

We are here today to return to hearings on the Higher Education Act. This is the seventh in a series of hearings related to the reauthorization of the Higher Education Act. This morning, we are focusing on the management structure of the Office of Postsecondary Education, fondly referred to as "OPE," for the financial aid delivery system.

On the surface, this may appear to be a tedious topic. It is far more appealing to talk about the millions of low-and middle-income students who are in college today because of the financial assistance made available by the Federal Government than to worry about all the administration. What we cannot afford to forget, however, is that the operation that supports these activities is essential to the success of our broad policies.

We want the management structure to support the highest performance level of delivery for students and families who depend upon financial aid to finance higher education. I and other members of the committee on Labor and Human Resources have a longstanding interest in management of the delivery system. We believe that strong leadership guided by a sound plan are necessary factors to effectively manage a cutting-edge operation. We are looking forward to working with OPE to improve the delivery system through this reauthorization.

The administration of the Title IV delivery system is an enormously complex operation. OPE has been charged with managing the Title IV programs which disburse over $40 billion in aid each year. This is comparable in size to the most sophisticated financial services companies. The delivery system supporting these activities costs $325 million annually. Student aid is useful only if it is deliv-

ered into the hands of the students. The Federal Government has a responsibility to ensure an equitable, effective delivery process.

Unfortunately, warning signs are on the horizon that we may not be able to rely completely on the current process, and we are here to help discern whether there are problems and how we can help to remedy any problems that we find.

The Senate has been concerned for a number of years about the efficiency and integrity of the OPE delivery system. The various programs operate independently of each other, with redundant data. My colleagues and I have repeatedly called for improvements to a system that has been identified as outdated, inefficient and prone to breakdown by the General Accounting Office, the Office of Inspector General and the Advisory Committee on Student Financial Assistance.

Recently, representatives of the higher education community communicated similar concerns in the form of reauthorization proposals requesting that Congress consider major changes in the structure of the student aid delivery system.

While there is not yet agreement about what new structure would best serve students, institutions, States and taxpayers, there appears to be consensus that the status quo is unacceptable. We have received reauthorization proposals from the education community that range from implementing a performance-based organization within OPE to privatizing student aid delivery.

The community consensus that a major change is required is based on the widely acknowledged finding that recent system and contract problems are serious, pervasive and systematic. No program, major system or contract has been spared. Students, institutions and States have all been affected.

However, OPE's response to these realities has yet to convince the community that they can manage Title IV delivery in a manner that will eliminate the instability and burden caused by recurring system and contract problems.

I recognize that some view this hearing as a partisan attack on the Department of Education. I am not concerned about making a partisan statement, but I am concerned that students and families receive Federal assistance in a timely fashion and that the Federal fiscal interest be upheld. Concerns raised by a combination of voices ranging from the GAO to the IG, the Advisory Committee and the community have led to this hearing being scheduled.

Attempts in the past to address this problem have not been totally successful, and I hope that today's hearings will jump-start such a discussion.

I look forward to working cooperatively with the Department of Education. I admire the personnel who work there. I hope and believe that there may be systems problems which I think, cooperatively, we can work together to solve.

Mr. Longanecker, I understand you have a rather lengthy statement——

Mr. LONGANECKER. I have an abbreviated one, Senator.

The CHAIRMAN. OK, fine. I can assure you that your total statement has already been reviewed, and we appreciate your willingness to cooperate with our time constraints, so thank you very much.

Please proceed.

STATEMENT OF DAVID A. LONGANECKER, ASSISTANT SECRETARY, OFFICE OF POSTSECONDARY EDUCATION, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC, ACCOMPANIED BY BETSY HICKS, DEPUTY ASSISTANT SECRETARY FOR STUDENT FINANCIAL AID PROGRAMS

Mr. LONGANECKER. For the record, I am David Longanecker, and I am the assistant secretary for postsecondary education. I am accompanied today here at the table by Betsy Hicks, who is the deputy assistant secretary for student financial assistance. I appreciate my full remarks being placed in the record, and I will be more succinct.

As always, it is a pleasure to appear before your committee. I would admit that the title you selected for this hearing caught us a little off-guard. While $320 million is an awful lot of money, and we recognize that, it is from our perspective a reasonable amount to spend to protect the more than actually $140 billion that in one way or another, we oversee each year—the $40 billion we put out each year, but then there is $100 billion that is still in repayment on student loans, so that is a tremendous Federal investment, and we think this is a reasonable amount to pay for that. Whether it is enough, too much, or too little, however, is really less the issue than whether we are spending those dollars wisely, and that is what we really want to talk to you about today.

With our testimony this morning, we hope that you will better understand the management environment that we inherited, the progress we have made to date in managing the student financial aid programs, which we think has been substantial, and the challenges that lie ahead of us and what we have in mind for addressing those challenges.

In our prepared text, I discuss how the $320 million— actually, for this year, fiscal year97, it is $305 million—is spent. About $80 million of that is spent on the original application process for the 10 million students who apply through the Free Application for Federal Student Financial Aid, the so-called FAFSA, and for customer inquiries and customer support. Another $41 million is spent to originate and disseminate or disburse our Federal student aid to the 7 million students who ultimately do get Federal assistance; about $126 million will go to servicing and collections in all Federal programs, except, of course, those servicing and collection costs that are really not visible in the same way in the budget for FFEL because they are part of the subsidy structure to the lenders. Then, the remaining $58 million pays for our program management and oversight activities of the approximately 7,000 schools and 6,000 lenders and other entities with whom we work every year.

We have done a great deal over the last 4 years to assure that those resources are used wisely and are providing quality education to students and service to institutions.

Obviously, we think one of our most successful efforts to date in that regard has been direct lending. In great part, we proposed that program because the reports by the GAO and others and our own experience convinced us that there were fundamental flaws in the bank-based FFEL program that could best be addressed by cre-

ating a brand, new program and so evolved direct lending, and it has lived up to all of our expectations. And not only that, but I think almost everybody in the higher education community now agrees that our strong performance in direct lending and bringing up direct lending contributed substantially to improvements in performance of the FFEL program as well.

As committed as we are to direct lending—and we are—we are also working very hard to improve management of all of our existing management activities and responsibilities. Thanks in great part to the laws that you provided in the 1990's and the teeth that were in those laws, we have been able to bring down the default rate from 22.4 percent to 10.7 percent, and we have been able to reduce default claims by 40 percent at the same time that borrowing in the programs went up by 60 percent, a substantial accomplishment. We have been able to more than double our collections on defaults that are done by the Department, now collecting more than $2 billion per year. And that is all very good news. Now, credit for that can and should be shared broadly, but certainly we believe some of the credit should accrue to the Department.

We have also worked to improve the student aid delivery system by providing more vigilant oversight of the schools. We have removed more than 650 schools from eligibility, another 200 from student loan eligibility through the default rate procedures, and we have denied applications to participate from a much larger share of the schools applying because they were not prepared to participate adequately in these programs than had been the case before we came to town. Another 1,000 schools have received only provisional certification because it appeared that they may be putting Federal dollars and students' education at risk, so we are observing them more closely.

On the staffing side, we have recruited and trained a stable and able senior staff, both political and career. Betsy is an example of the kind of superb manager that the Secretary has sought to bring into the Department to provide vision, leadership and stability; and Gerry Russomano, who is sitting behind us and is the head of our systems area, is the kind of career staff person that we have recruited and brought in to provide the team around us of career professionals to help us manage this organization much better than has been its historical precedent. These people know their business, and they are demonstrating that strong performance-based management is entirely possible within a Federal entity.

With respect to computer systems, we have brought into existence the long awaited—and we think unfairly maligned—National Student Loan Data System. It is saving the Federal Government many times over every year what it is costing us already in its first 2 years of operation. In addition to the savings, though, which are important, it is making the job of administering this program for schools much easier, allowing institutions to process both the financial aid transcripts, the so-called FATs, and the Student Status Confirmation Reports, the SSCRs, electronically through the National Student Loan Data System rather than via the paper processing that was required until this system came on line.

We have also made substantial improvements in the quality of the data in that data system, improving the notoriously bad histori-

cal data from the guaranty agencies, thanks in great part to some really fine work by our chief financial officer's office.

Yes, the programs cost more than the original amount, but it is not because of poor management, which is implied by the references to terms like "cost overruns," but because of the success of the program. The scope of this program has increased substantially. We are processing larger volumes of student loans today than anticipated back in the early 1990's, and we have expanded the scope of services and programs covered.

Just for an example, we did not have a direct loan program when this was envisioned, and when we brought on a major new Federal program, that had to be incorporated into the National Student Loan Data System, and that obviously cost us some resources. We have been working to improve the way in which students apply for Federal aid through the FAFSAs that I mentioned earlier. We just demonstrated a couple of months ago to the higher education community a new FAFSA on the Web, one with strong security for protection of privacy, I might mention, contrary to some that you have been talking about recently, and that will be available broadly to the community next month.

I see the red light, and still have some more to say. May I take a couple more minutes?

The CHAIRMAN. That is all right. You can continue a little while longer. That is just a warning.

Mr. LONGANECKER. Thank you, Senator.

Without a doubt, I think our best work on improving the delivery of student aid has been through the technology that we developed for direct student loans. Through that program, we clearly set the industry standard; it is the model that I think we are looking to for the future for our other activities. In 3 years, our performance in that program has captured more than one-third of the market in student loans, from a well-established, mature student loan industry.

What we have is essentially a totally electronic program which, in stark contrast to the FFEL program, provides real-time data on student loan volume, delinquencies and defaults. If you call us tomorrow, we can tell you what our volume is in that program.

We have already made more than $18 billion in loans through that program; about one-quarter of the more than 2 million students who borrowed direct lending are already in repayment, and we have collected more than $700 million in that program, so it is a program that is up and running.

As good as it is, it has not occurred without some start-up problems. Recently, we transitioned from one contractor for all direct loan origination and servicing functions to separate contractors for loan origination and loan servicing. We did that for very sound reasons—to achieve administrative cost savings, to improve customer service through the use of competitive performance contracting, and perhaps most important, to build in better management information systems to make sure that we were protecting the Federal investment. But as you have probably heard, the conversion of at least that first part of the transition, loan origination, has not gone as smoothly as we had hoped it would. Although we and our contractors worked very hard to make sure that it would be a smooth

transition, unfortunately, the schools in direct lending experienced an initial fall-off in service when the conversion occurred, and we feel very badly about that.

Everything we see at the present time suggests that the roughest aspects of that transition lie behind us and that very soon, those direct lending schools will be appreciating the same customer delight in terms of service that we were providing them up to that point. But we nonetheless have been very concerned about that and are sorry that it occurred.

Now, with respect to the second part of the conversion, the student loan servicing, we have three new serving contracts that are progressing quite smoothly, and although for legitimate reasons, we moved the target implementation date from July 1 to mid-August on those, that really presents no problem, because those students—what we brought these on for was to deal with the influx of volume that will come from the third year of activity in the program, and those loans will not come into repayment by and large until later this fall.

So we have done much to improve the way we serve you and students and our many other partners, but we are not finished. We, like most of the others with whom you will talk today, believe that the student financial aid system should be redesigned and modernized. We are doing the best we can within the current parameters of the program, the current sphere, but we think that a new approach can do much better and can save you substantial money.

I had the opportunity to see Mr. Nassirian's testimony, which he shared with us, and I believe that he has captured quite well the reasons why this reengineering process is needed. To that end, we established the Project EASI, which stands for "Easy Access for Students and Institutions," which is an effort to work with our many partners to design a new delivery system that meets all of our Federal objectives of exceptional service to students and exceptional accountability to the public, also allowing a much simpler, better understood, less burdensome and more timely delivery of aid, not just Federal aid, but all student financial aid.

EASI has been at its task for about 2 years, and while we and others might have hoped for more rapid progress, effectively collaboration, as you know from your jobs, takes time, particularly when dealing with something as complex as the current financial aid system and with the diversity of interests that are reflected in the communities with which we work.

But we are now beginning to see the fruits of the EASI effort. We have established a vision which calls for a facile, integrated, overall information and delivery aid system. In September, we will receive the initial design on the system's architecture that will be necessary to achieve the Federal component of the EASI vision, and very shortly we will be adopting a strategy for modifying the National Student Loan Data System so that it better fits that vision and logical systems architecture.

This is really a very exciting project. In fact, I think it is a very exciting time for us. And that project, we believe, stands to greatly benefit not only the Federal Government but virtually all the partners with whom we work.

Today, you will hear from some of our partners about their concerns and about other ways in which they think we could be moving, from the ideas that you mentioned of totally privatizing the system to perhaps going to performance-based organizations or doing it within the current structure through significant revisions. Those, we think are all important things for us to look at. The Department, the administration, has not taken a position about what type of organization will best serve the needs of students and the Federal Government because we think it is premature to do that. We believe that that is the cart before the horse. We believe the first step needs to be to forge that broad consensus on how we want this system to be improved. Obviously essential to our interest as the Federal Government in these discussions is balancing the needs of students and schools and partners with our need for substantial and defensible accountability for the use of Federal funds.

Once we have established those shared objectives on what the State of the art delivery system should be and how it should function, then we can address the best type of organization to create and run that system, and that is in essence what the task of EASI is from our perspective.

So that is a brief picture of where we came into this picture, what we have accomplished over the past 4 years, which we believe is substantial, as I mentioned, and what challenges we see ahead and what strategies we are developing to address them. I hope this is helpful to you. We too will look forward to working with you. Some of this is a management challenge that we have today; some of it will require substantial work with the Congress and with the changing of the Act, and we look forward to working with you toward that.

[The prepared statement of Mr. Longanecker follows:]

PREPARED STATEMENT OF DAVID A LONGANECKER

Mr. Chairman and members of the committee, I am pleased to be here today to discuss what the Department of Education is doing to improve the delivery of student financial aid. This year more than $40 billion in financial assistance in the form of grants, loans, and work-study aid will be awarded to over 7 million undergraduate and graduate students at about 7,000 postsecondary schools. In addition to overseeing the delivery of most of that aid, the Department is responsible for monitoring the repayment of nearly $100 billion in Federal direct and guaranteed student loans made in previous years. In relation to these sums, the $320 million referred to in the title of this hearing, though certainly a large amount of money, is not a unreasonable sum to be spending to deliver and protect the Federal investment in student assistance. The central issue is whether this $320 million is being well spent in protecting the Federal interest.

We at the Department believe those funds are being spent wisely. Let me begin by sharing with you what that sum—and it's actually closer to $305 million—goes for. We will spend that amount this year for contracts supporting the student aid system. That appropriated amount will pay, first, for processing approximately 10 million FAFSAS—the Free Application for Federal Student Aid—used in the award of Federal, State, ad institutional aid, as well as for customer support services for students and their families, schools, States, lenders, guaranty agencies, and secondary markets. Second, it will cover origination and disbursement costs associated with Pell Grants, Campus-Based aid (Perkins loans, Supplemental Educational Opportunity Grants, and Work-study Aid), and Direct Loans. Third, it will pay for servicing and collections costs associated with the Ford Direct Loan Program and the Federal Family Education Loan Program (FFELP). Finally, it will go for expenses incurred in program management and oversight of the 7,000 or so schools participating in Federal aid programs plus the approximately 6,000 entities (lend-

ers, guaranty agencies, loan servicers, etc.) involved in administering the FFEL program.

THE CHALLENGE

When I joined the Department of Education four years ago as the Assistant Secretary for Postsecondary Education, Secretary Riley invited me to his office and gave me a GAO document entitled *High Risk Report: Guaranteed Student Loans*, which had just been issued in December 1992. That report identified the FFEL program as one of 17 federal programs considered to be at "high risk" of fostering waste; fraud, abuse, and mismanagement. GAO said that the structure of FFELP "is overly complex, and many participants have little or no incentive to prevent loan defaults. Lenders and State agencies [that guarantee the loans] benefit from making loans, but generally do not bear any financial risk . . . . Nearly all the risk falls to the Federal Government . . . ." Because of the high number of guaranteed student loans in default, GAO concluded that the Department had not been protecting the financial interest of the Federal Government and U.S. taxpayers.

After considering this criticism—and the GAO was not alone in making it—we agreed that FFELP was structurally flawed. The incentives in FFELP did not operate properly to prevent defaults, and the information available to administer the program was inadequate. All the Department could do was audit what occurred after the fact. One of the ways GAO suggested improving accountability was through a direct loan program, which was being considered in the Congress. President Clinton proposed and the Congress enacted the Student Loan Reform Act of 1993, which created the William D. Ford Federal Direct Loan Program. In that system, electronic data would be available on how much money schools were drawing down to make loans and how much they were disbursing to students, allowing us to actually manage the program. At the same time, we recognized that we were also responsible for improving the woefully inadequate management of the FFEL program.

This Department continues to manage two strong loan programs, and has proposed to Congress in its fiscal year 1998 Budget a number of changes to ensure equity for borrowers in both programs, including increased benefits to FFEL borrowers such as flexible repayment options, competitive interest rates on consolidation loans, and retention of interest subsidy upon consolidation. These benefits are in addition to large reductions in origination fees for borrowers in both programs. The President's Budget will also strengthen the FFEL program by streamlining functions and creating financial incentives that will reduce the need for regulation ad will save taxpayer funds.

IMPROVEMENTS IN OVERSIGHT AND MANAGEMENT

Our determined efforts to better manage the FFEL program, with help from the Congress through legislative changes, resulted in significant improvement, as demonstrated by a few numbers. The national FFEL cohort default rate declined from 22.4 percent for the 1990 cohort to 10.7 percent for the 1994 cohort. Federal payments for defaulted FFELs have declined about 40 percent, from $3.6 billion in fiscal year 1991 to $2.2 billion in fiscal year 1996, despite a 60 percent increase in the volume of loans in repayment during the same period. And collections on defaulted loans increased from $1 billion in fiscal year 1992 to $2.2 billion in fiscal year 1996.

The student aid delivery system is also better today than it was four years ago for a number of reasons. One is that the Department committed itself to reforming the delivery system and to listening to constructive suggestions for doing so. A recent GAO report (*Department of Education: Status of Actions to Improve the Management of Student Financial Aid*, July 1996) noted that between April 1991 and July 1995 the Congress, the GAO, and the Department's Office of the Inspector General made 205 recommendations for improving the delivery of student aid. The Department has acted on over 90 percent of those recommendations. Of those we did not implement, many require legislative changes.

One of the major ways we acted to improve the delivery system and better guard taxpayers money was to strengthen gate keeping procedures to keep unscrupulous schools from participating in Federal student aid programs. Over the past 4 years, the Department's actions have led to the removal of 875 schools, including 672 schools from all student aid programs and an additional 203 from Federal loan programs. These actions are the result of legislation enacted by Congress in 1990 and 1992 that gave the Department more tools to manage Federal student aid.

Postsecondary institutions must now meet rigorous certification standards to become eligible to participate in Federal student aid programs. The Department has denied about 33 percent of the initial school applications to participate in aid programs in the last 3 years, double what the percentage was in 1990. Approved schools must also meet higher standards of financial responsibility and administra-

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tive capability. Schools of questionable capacity are given only provisional certification and are subject to expedited administrative review so that the Department can move quickly to eliminate them from participating in aid programs should problems arise. Over 1,000 schools have been placed on provisional certification during the past 4 years.

The Department has also brought stable leadership to student aid programs. Before I arrived, the Office of Postsecondary Education was notorious for having "revolving door" leaders. In contrast, we have established a stable, capable team, including Betsy Hicks, who serves as Deputy Assistant Secretary for Student Financial Aid Programs. She brings to her job extensive expertise as a nationally respected financial aid administrator at Harvard University and has transformed the Office of Student Financial Aid (OSFA) into a performance' driven organization. During her tenure in the Department she has selected an able group of experienced career officials to run the programs. Before she arrived, half of the senior managers in her office were in temporary assignments. None of her senior managers is now acting, rather they are doing. Jerry Russomano, Director of the Program Systems Service which oversees Federal student aid computer systems, is an example of this new leadership in OFSA. Mr. Russomano, who was hired last year, has over 20 years experience in information technology in the Departments of Defense and Commerce, and most recently was Director of Business Process Reengineering at the U.S. Patent and Trademark Office.

Modern technology is also helping the Department transform the delivery of student aid. The National Student Loan Data System (NSLDS) is an example of this. In a way, its name is a misnomer. It is really more a "National Student Aid Data System" because it is not only the first source of national data on student loans—including FFEL, Direct, and Perkins loans—it also has data on Pell Grant recipients and will in the future have data on recipients of other Federal grants and work-study. Although implemented only two and one-half years ago and still growing, this system contains over one billion records with information on over 34 million current or past students, almost 90 million loans, and 14 million Pell Grants.

NSLDS now plays a central role in delivering student aid. It is routinely used in prescreening applicants for Federal aid to eliminate those who are ineligible. From January 1995 through the first half of 1996, NSLDS idled more than 125,000 applicants as prior defaulters who were applying for additional financial aid, helping to prevent as much as $310 million in future defaults and denying about $75 million in Pell Grants to ineligible students. For almost a year, NSLDS also has been providing schools with electronic financial aid transcripts (so-called FATs) to help their transfer students get Federal aid. Although many schools still request paper FATs because they do not yet have the technological capacity to exploit NSLDS fully, the system provided 45,000 electronic FATs last month alone. NSLDS is also being used to enhance accountability in the delivery system. After initiating pilot testing last year, the Department has used NSLDS since February to send Student Status Confirmation Reports (SSCRs) to schools to ensure that aid recipients are property enrolled. Previously, schools had to send these Reports in paper format to every guaranty agency used by one of their students. As you can imagine, this new process of electronically confirming student enrollment is saving schools a lot of work.

I also want to take this opportunity to address concerns about NSLDS. Some have alleged that NSLDS has had a cost overrun of $50 million based on the original budget request submitted by the Bush administration. That request of $39 for a 5-year contract was based on the underlying assumption that neither the scope of the work nor loan volume would increase throughout the period. Both assumptions quickly became outdated. New legislation significantly expanded loan eligibility and loan limits, resulting in a doubling of loan volume in the last 4 years. The scope of work also increased as a direct result of increased customer demand for the enhanced capabilities of the system. In 1995, the Department determined that the actual costs of operating NSLDS would be higher than budgeted. Since then, all materials to Congressional appropriations and authorizing committees have reelected the revised (higher) estimates. We expect that at the end of the 5-year contract, which occurs in September 1997; that the annual costs for NSLDS will be approximately $86 million. Since the current contract was awarded in 1992, technology has evolved to reduce considerably the cost of computer processing and storage, and a recompetition would take advantage of these improvements.

The quality of the data in NSLDS has also been a matter of legitimate concern. The data in NSLDS come primarily from guaranty agencies (or their servicers). The guaranty agencies, in turn, receive data from banks and other lenders (or their servicers). For many years, the Department did not pay adequate attention to the quality of the data agencies (and banks) provided about FFEL loans. When the Department started calculating guaranteed loan cohort default rates for individual

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schools, many errors were identified. Under Secretary Riley's leadership, my office has worked with the Office of the Chief Financial Officer to take vigorous steps to address those problems, and we have made progress. For example, just since January, the cumulative error rate on data submitted by guaranty agencies has declined from about 15 percent to 6 percent. This is still too high, and we will continue working with our data suppliers to help them improve.

The Department is using technology to improve aid delivery in other ways as well. Since 1995 we have encouraged students to send in the Free Application for Federal Student Aid (FAFSA) electronically using the EDExpress software that the Department provides schools to automate their interchange of data with the Department. About two percent of students now apply for aid using FAFSA Express, software provided directly to the applicant, which allows the Department to receive the data over a modem. Students' applications for aid are also matched electronically with data from the Immigration and Naturalization Service, the Selective Service, the Social Security Administration, and the Department of Justice to assess their eligibility for aid. Last year, about nine percent of students were identified this way for additional review of their eligibility. The Department is also planning to put FAFSA on the World Wide Web next month. We have been working on this project since last summer and provided a demonstration to representatives of the postsecondary education community two months ago. We believe this innovation will prove very popular. We are emphasizing data security because of the sensitive nature of the information students and parents must provide, but we believe that the strong security measures we have taken, including the personal identification number (PIN) codes, will make this innovation safe.

Perhaps the most effective use the Department has made of modem technology is in the Ford Federal Direct Loan Program. With enactment of the Direct Loan program in 1993, the Department set about creating a way to make it easy for students to get loans through their schools, and that way involved extensive use of technology. Essentially, the Direct Loan program is totally electronic. We have electronic data on student loan volume, delinquencies, and defaults for all direct loans. It is only for guaranteed loans that others administer that we don't have this type of information, which is equally important in managing the FFEL program well. And the taxpayers' financial interest in the Direct Loan and FFEL programs is virtually identical.

In just three years of operation, the Direct Loan program has come to account for over 35 percent of loan volume. In any other industry, an organization that took over more than one-third of its market in such a short period of time would be properly celebrated for its innovativeness. Indeed, it took AT&T nine years to lose 30 percent of its long-distance telephone market to new competitors like MCI and Sprint.

Many schools have realized the benefits of participating in the program, and the number of schools in the program making loans has increased from 104 in the first year to 1,295 currently. The total cumulative volume of Direct Loans rose from $1.6 billion in the first year to an estimated $18 billion today, going to about 2.3 million borrowers. About $5.2 billion in Direct Loans are in repayment now, with 550,000 borrowers currently making payments. Total collections from all borrowers amount to about $700 million.

While we are proud of the Department's performance in implementing Direct Lending, we recognize that we can improve our management of it. For just that reason we recently began a two-stage move from our original contractor to separate, new contractors, one for origination ad another for servicing. We made these changes to use more advanced technology in running the program and to reduce Federal costs, both of which will occur under the new contracting arrangements.

The transition to new contractors has not been problem free. With respect to the new loan origination contractor (Electronic Data Systems, or EDS), we experienced some unfortunate but temporary degradation of service to the Direct Loan community. We knew there would inevitably be some disruption in the transition. That is why we began the transition during the period of lowest program activity (February and March). We worked very hard to make a seamless transition. However, both the Department and our contractor did not live up to our expectations regarding computer systems activity and general customer service. This computer systems conversion involved moving nearly 5 million student loan records to a new computer environment. And it required doing so in a way that allowed the new system to interface with the different computer systems managed by the nearly 1,300 schools participating in Direct Lending.

The difficulties that we experienced in this process were regrettable. We hope that those conversion problems are now mostly behind us. One consequence is that we have a much stronger management information system that provides rapid feedback

on what is going on in the program. This now gives us greater checks and balances in the Direct Loan program than we had in the original contract, and than we have ever had in the FFEL program.

The conversion to new student loan servicing contractors has proceeded much more smoothly. Again, some context is useful in understanding our current circumstances. The number of loans entering repayment will increase substantially this fall when the loans for students leaving school this spring enter repayment. We recompeted the loan servicing contract to achieve the cost savings and performance enhancements that result from competitive servicing. These new contractors are scheduled to come on line in mid-August before the influx of new loans entering repayment this fall. While the Department had originally established a target date of July 1, 1997, for bringing the new contractors on line, we moved this to mid-August to extend the time available to thoroughly test the new loan servicing systems to gain confidence that they are totally functional before coming on line. We want to be sure that we continue to provide quality service in this program.

Diect Lending remains a superb program, providing exceptional value to students, schools, and the Federal Government. We remain committed to making it the centerpiece of a reinvented, integrated student aid system that provides the finest service available anywhere.

MODERNIZING THE AID SYSTEM

While the Department believes that the current financial aid system is effective in serving the 7 million students now receiving aid and in protecting the taxpayers' dollars, we believe it can do much better. Today, the various systems delivering student aid are incompletely integrated, financial data from aid programs are only partially consolidated at the student level, and too many contractors use different operating systems in delivering aid.

The Department is committed to redesigning and modernizing the aid system to address those issues using the latest information engineering and computer systems technology. We have taken a number of steps in that direction. The most important step is Project EASI, which stands for Easy Access for Students and Institutions.

Project EASI is a collaborative initiative to reengineer student aid delivery and improve customer access to information and funding for education beyond high school. For about two years now, the Department has been meeting with a group of representatives of students, schools, lenders, guaranty agencies, and secondary markets (along with OMB) to design a state-of-the-art, comprehensive, and integrated financial aid delivery system. Leadership has been provided by the Project EASI Steering Committee chaired by Anna Griswold, Assistant Vice Provost for Student Financial Aid, Pennsylvania State University, and Kay Jacks, Executive Director for Enrollment Services, Colorado State University. Under the direction of Deputy Assistant Secretary Betsy Hicks, the Department has also established a special team to work on this project and hired several contractors to help design the system.

Let me explain EASI briefly to you. Project EASI foresees the Department creating a student-centered delivery system with a single point of contact for information on student aid. Initially, it will involve the delivery of just Federal assistance, but the notion is to develop it in such a way that it will apply to all aid. Through EASI, students will be able to apply for aid, determine their eligibility, and have their aid—whether a Pell Grant; Direct, Perkins, or FFEL loan; work-study assistance; or institutional or State aid—delivered to the school of their choice almost immediately. Her leaving school, borrowers will be able to check on their loan balances 24 hours a day. Schools will be able to use EASI for enrollment tracking and reporting as well as for repayments. The Department will have access to a management information system that will enable us to carry out program management, reporting, and oversight in a real-time environment. The use of common data definitions conforming to electronic data interchange standards will ensure the highest quality performance. If you are interested in more information on EASI, I encourage you to look on the World Wide Web at www.ed.gov/EASI/vision.html.

The breadth and direction of the EASI vision has raised concerns in a number of quarters. Some institutions with limited computer capacity and skills are worried they will be cut out of student aid. While we are taking steps to encourage all schools participating in Federal student aid programs to use computers to exchange data with the Department, access to EASI will be available by telephone or in writing, as well as by computer. Others are concerned that EASI will be prohibitively expensive. In fact, because EASI will streamline and simplify aid delivery, we expect EASI to reduce costs not only to the Department but also to schools. Finally, some people are frustrated that EASI is not a reality today. We have considerable sympathy for this concern, but making sure that the 7 million students now getting aid at 7,000 schools continue to get their aid while we modernize the delivery system

must be a paramount concern. Changing from a "stovepipe" structure of 16 different Federal systems using 12 different contractors to a comprehensive, integrated delivery system involving a true partnership between the Federal Government and our numerous public and private associates requires careful planning and deliberate implementation.

Project EASI has made progress toward specifying functional requirements and an initial cut at creating a technical architecture for a new delivery system. Meanwhile, the Department is moving ahead to modernize the delivery system with other improvements consistent with EASI's vision. FAFSA on the Web will be available in June, as I mentioned, and we are exploring the use of a multi-year promissory note with the banking community, which would be used for both the Direct Loan and FFEL programs. We are looking at industry best-practices of outstanding data processing so that the Department does not own mainframes but is still able to get the computer processing it needs. Furthermore, we are restructuring NSLDS. Although not originally conceived that way, NSLDS is becoming a transactional data base with most of the data necessary to support EASI. The Department, however, is taking steps to make it easier to use and to reduce its costs.

The desire of some to modernize student aid delivery has led them to advocate setting up new forms of organization to deliver student aid. Some, for example, are proposing a mutual benefit corporation (MBC), which as I understand it is a non-governmental corporation operating under a charter and bylaws approved by an appropriate Federal agency that is set up to help run an industry. The best known example is probably the Securities Industry Automation Corporation, a private firm that administers the data exchange system on which securities trades are made for the New York Stock Exchange and the American Stock Exchange. Others have proposed delivering aid through a Federal performance-based organization (PBO) which would be within a Federal agency under the policy supervision of the Secretary and the President. These organizations are given substantial freedom from some of the more complex Federal laws governing executive branch operations to state innovation and improve performance.

The administration believes it is premature to take a position on the desirability of an MBC or PBO or any other type of organization for delivering student aid. I would like to suggest, however, that we be careful not to put the cart before the horse in trying to improve the delivery system. The first step, as I see it, is to forge a broad consensus on what we want an improved delivery system to look like. Once we have shared objectives on what a state-of-the-art delivery system should do and how it should function, we can then address the question of the best type of organization to create and run that system.

That is exactly the approach we are taking with Project EASI. We have been working with the postsecondary education community to create a shared vision of a new aid system that meets the needs and desires of all participants. The system many people seem to want would have a single point of contact for all financial aid and provide seamless service to customers in an easy-to-use mode over either the internet or the telephone. The appropriate technology and organizational form to deliver the aid in that system have not, however, been determined.

As the title of this hearing implies, the issue of accountability for the use of Federal funds in the student aid system remains central. The Federal Government provides about 75 percent of available financial aid. Any system set up to deliver aid must be able to account for how Federal funds were spent. Because the aid system involves a partnership among the Federal Government, State governments, schools, banks, and other entities, ensuring adequate accountability remains a challenge because of the diversity in the way the partners operate.

Moreover, in thinking about the future of the student loan system, we should not fall prey to the misconception that the Direct Loan program is a "public" loan program and that the FFEL program is a "private" program. Both are public-private partnerships, and borrowers in both receive Federal benefits. The underlying issue is how to deliver these loans to borrowers most efficiently and effectively while providing accountability to taxpayers for how Federal funds are used. In the Direct Loan program, the Department is trying to harness the power of the marks to make potential contractors for originating and servicing loans compete to provide the best possible service at the lowest cost to the taxpayer. The FFEL program accesses capital indirectly through a guarantee and with subsidies set in law, not through competition; the Department, however, is moving toward compete contracting for the elements of the FFEL program that it administers. Running the FFEL program through an MBC could make effective oversight even more difficult than it is in the current system if such an organization served in an intermediary role between the Federal Government and the student. It could move the Federal Government away from the hands-on involvement that is needed to ensure proper delivery of student

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aid and make Federal oversight of how Federal funds are being used even more difficult than it is now.

I want to reiterate that the Department is still committed to reforming the FFEL program. We have submitted a number of proposals in our fiscal year 1998 budget submission to eliminate the complexity and redundancy in the current FFEL system and make it more efficient and less costly. These proposals build on the legislative changes made in 1992 and 1993, and would strengthen our ability to manage the FFEL program.

CONCLUSION

The student aid system must be modernized, and the Department is committed to doing so in partnership with the postsecondary community. We have learned through the Direct Loan program the power of harnessing new technology to manage more effectively and efficiently the delivery of financial aid. The Direct Loan program has set a world standard for delivering loans, and we think every recipient of all types of financial assistance should experience the same level of quality. Students deserve no less than the highest quality of customer service, and we are working to see that they get it.

I know my testimony has ranged over a variety of topics, some quite technical, and that many of you will have questions to ask me. I would be happy to try to answer them. Thank you.

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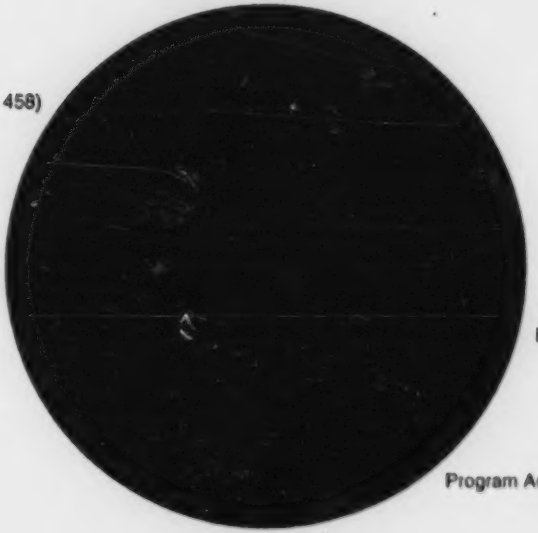
Fiscal Year 1997 Administrative Appropriations

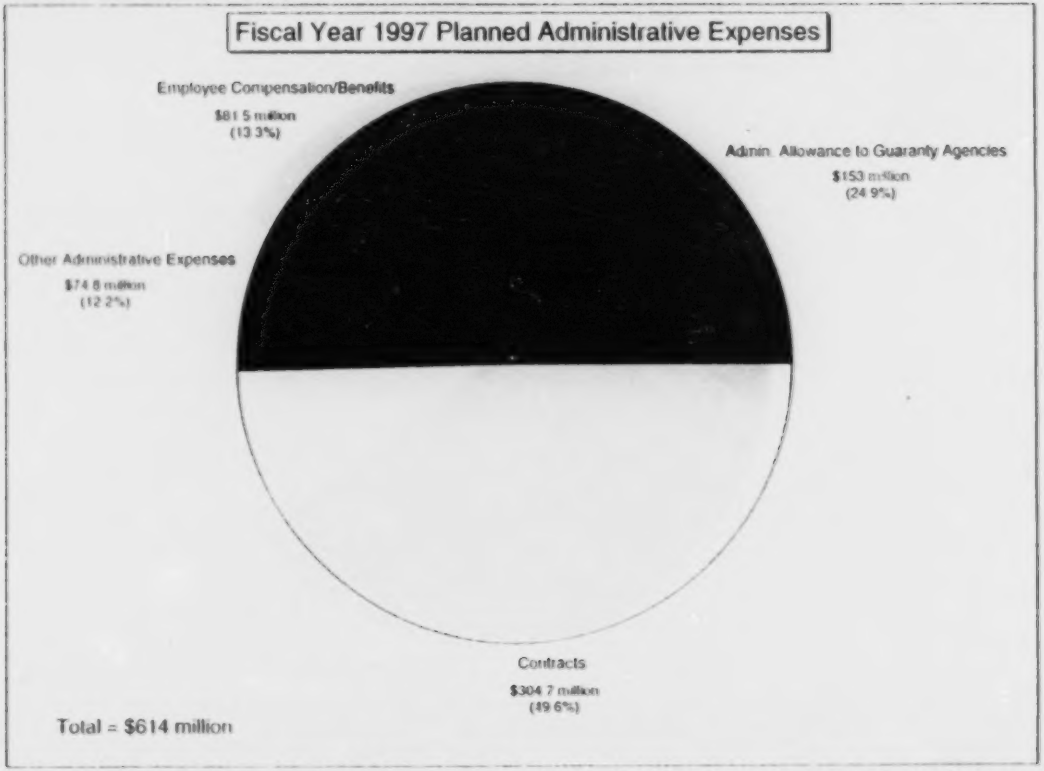


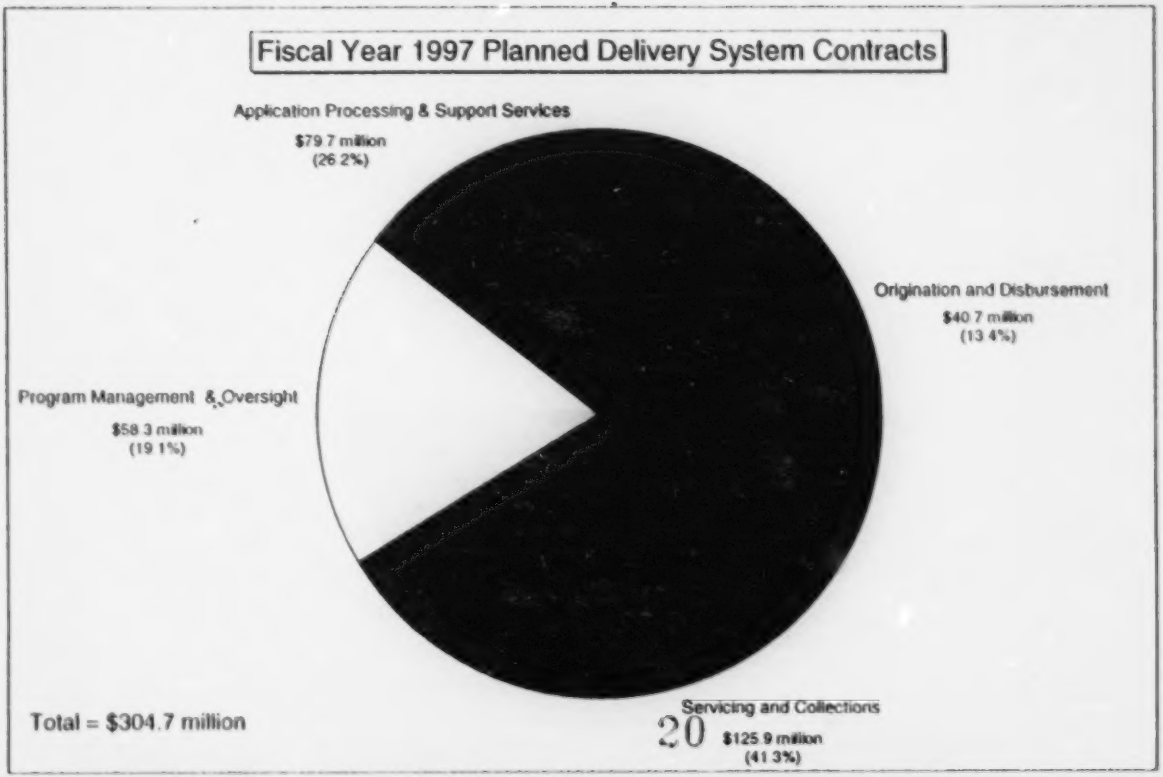
Student Loan Administration (Sec 458)
$491 million
(80.0%)

Family Federal Education Loan
$76.4 million
(12.4%)

Program Administration (OPE allocation)
$46.6 million
(7.6%)

Total = $614 million


Fiscal Year 1997 Planned Administrative Expenses
Employee Compensation/Benefits
$81.5 million
(13.3%)
Admin. Allowance to Guaranty Agencies
$153 million
(24.9%)
Other Administrative Expenses
$74.8 million
(12.2%)
Contracts
$304.7 million
(49.6%)
Total = $614 million


Fiscal Year 1997 Planned Delivery System Contracts
Application Processing & Support Services
$79.7 million
(26.2%)
Origination and Disbursement
$40.7 million
(13.4%)
Program Management & Oversight
$58.3 million
(19.1%)
Servicing and Collections
$125.9 million
(41.3%)
Total = $304.7 million
20

Responses to Senator Hutchinson's Questions Submitted for the Record in Follow-Up to the May 15, 1997 HEA Hearing

Q: **Dr. Longanecker, in an amazing turn-around, the former Senior Advisor to the Secretary, Leo Kornfeld, has stated, and I quote, "... Student Financial Aid, which has had its unfortunate share of technology problems presents an opportunity to save millions of taxpayer dollars and provide improved customer service by privatization" --end of quote. This is a stunning statement from a person who was once one of the strongest proponents of government-sponsored Direct Lending. Does the Administration also favor privatization of student aid functions?**

A: Your question presumes that "privatization" would be more relevant to the Direct Loan program than to the government-guarantee program. Both are public-private partnerships, in which borrowers receive federal subsidies and taxpayers absorb virtually all of the risk. The basic issue is how to deliver subsidized loans to borrowers most efficiently and effectively while providing accountability to the public for how subsidies are used. In the Direct Loan program, the Department harnesses the power of the market to make potential contractors for originating and servicing loans compete to provide the best possible service at the lowest cost to the taxpayer. The FFEL program uses private banks and capital to make loans, but sets and guarantees their returns by statute through the political process, thus essentially failing to benefit from the market principles of price and quality competition. Direct Lending takes the essential activities, origination and servicing, and subjects them to market pressure.

The Department has long had a strong partnership with the private sector in the processing and delivery of student financial aid. We manage contracts with a variety of private companies amounting to nearly $300 million annually. These private contractors support FAFSA processing, Pell Grant delivery, Direct Loan origination and servicing, subsidy payments to FFEL lenders and guaranty agencies, Campus-Based program delivery, cohort default rate calculations, financial aid transcripts, student status confirmation reporting, and collection of defaulted student loans. We believe that through such a contracting strategy, we are benefitting from the technical skills and specialties of the private sector while maintaining the public interest as the primary influence in our program management decisions.

The desire of some to modernize student aid delivery has led them to advocate setting up a mutual benefit corporation (MBC). An MBC, as I understand it, is a corporation set up to help run an industry operating under a charter and bylaws approved by an appropriate federal agency. The best known example is the Securities Industry Automation Corporation that administers the data exchange system on which securities trades are made for the New York Stock Exchange and the American Stock Exchange.

The Administration has taken no position on whether a mutual benefit corporation could

play a useful role in improving the delivery of student aid. But I would like to share several thoughts that I have. First, the example of the securities industry suggests that MBCs may only be effective where there are buyers and sellers looking out for their own interests. In the delivery of student aid, there are no buyers and sellers in a conventional sense, only the federal government and its partners trying to provide aid to eligible students in an effective and efficient manner.

Running the FFEL program through an MBC could make effective oversight more difficult than in the current system if the MBC serves as an intermediary between the federal government and the student. This could move the federal government more toward an arm's length relationship with the students and schools, and away from the hands-on involvement that is needed to ensure proper delivery of student aid. It could make federal oversight of the use of public subsidies even more difficult.

The Administration believes it is premature to take a position on the desirability of an MBC or PBO or any other type of organization for delivering student aid. I would like to suggest, however, that we be careful not to put the cart before the horse in trying to improve the delivery system. The first step, as I see it, is to forge a broad consensus on what we want an improved delivery system to look like. Once we have shared objectives on what a state-of-the-art delivery system should do and how it should function, we can then address the question of the best type of organization to create and run that system.

That is exactly the approach we are taking with Project EASI, which stands for Easy Access for Students and Institutions. We have been working with the postsecondary education community to create a shared vision of a new aid system that meets the needs and desires of all participants. The system many people want would have a single point of contact for all financial aid and provide seamless service to customers in an easy-to-use mode over either the Internet or the telephone. The appropriate technology and organizational form to deliver the aid in that system have not been determined.

Q: **Dr. Longanecker, recent reports about problems in the Direct Loan Program concern me greatly. It is disheartening to hear that your new origination contractor is experiencing severe problems. These are difficulties that are apparently so serious that they have caused disruptions to the integrity of the Direct Loan Program --not to mention great inconvenience for schools and borrowers. Do you think it is fair to say, as a school official recently did, that the Direct Loan Program is experiencing "a collapse?"**

A: On the contrary, the Direct Loan program continues to operate in a more accountable and cost-efficient manner than the government-guarantee system. It is not unusual for any new system to have some bugs that need to be worked out. EDS --the contractor for the Loan Origination Center --is no exception, having experienced some processing problems related to the transition and conversion of data from the prior contractor. We have been working with the contractor daily to solve these problems, and EDS has made good progress. Despite the initial start-up problems, the contractor is processing the great

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majority of transactions in a timely and accurate manner. For instance, the new contractor has processed more promissory notes and disbursement records than the prior contractor had processed in a comparable period last year. As of the end of May, the contractor had processed approximately the same amount in disbursements, over $1.4 billion, as the largest FFEL lender guaranteed during the entire last year.

Q: **Dr. Longanecker, the Advisory Committee on Student Financial Assistance has sent us several letters outlining the deficient state of the Department's management and computer systems, yet you seem not to heed their suggestions for improvements. And each year, the student aid programs are profiled in the GAO's High Risk Series as rife with problems, yet we don't hear from you that you are working to become more accountable. Even your own Inspector General points to weaknesses, yet the massive bureaucracy you administer doesn't seem to budge. Tell me please, Dr. Longanecker, how are you proposing to address the criticisms from all these entities so that we can be assured that you are worthy stewards of the taxpayers' hard-earned dollars? Please be specific.**

A: In fact, we have listened carefully to our critics, and we are doing a number of things to address the criticisms and suggested improvements that we have received about the management of our computer systems. First, we are moving forward with Project EASI, a collaborative initiative to reengineer student aid delivery and improve customer access to data. This initiative is staffed by representatives of schools, lenders, guaranty agencies, student associations, and the Department. The objectives of the project are to create a single point of interface for customers of the system, to streamline fund disbursement and repayment, and to provide expanded information regarding higher education to students and parents. We have just completed the functional requirements for the project, and are now working on the technical architecture and cost-benefit analysis phases. An implementation schedule will be developed after the cost-benefit activity, and design of selected modules will begin by fall.

While I certainly agree with the entities cited in your letter that the current state of the student aid delivery system warrants improvement, I disagree strongly with your assertion that we have not listened to the criticisms of our customers. We have listened to them and, as a result, have made vast improvements in the delivery system. We have implemented the Direct Loan program which is entirely electronic and is so simple and efficient that it has spurred major changes in the government-guarantee program's private sector industry. We have implemented the National Student Loan Data System (NSLDS), which is the first source of nation-wide data on student loans and is also totally electronic. Since 1995 we have allowed students to apply for aid electronically through FAFSA Express and we provide the results of all application processing to schools electronically. We perform computer matches with the IRS, INS, SSA, Selective Service, and the Department of Justice to determine eligibility and collect defaulted loans.

The Department has placed a major emphasis on technology. Consider, for example, the fact that the Department is working diligently to put FAFSA on the WEB, a product that will be operational next month. With respect to loans that the Department administers

directly --both Direct Loans and defaulted FFEL and Perkins loans, we keep up-to-date daily records of loan volume delinquency rates, default rates and the status of every single loan. Where we have had the authority, we have demonstrated sound management principles within the Department.

A report issued by GAO in June 1996 also demonstrates how seriously we take our critics' suggestions for improvements. GAO found that the Department had completed actions, has actions in progress or planned for 186 (91 percent) of 205 recommendations to improve its management of federal student financial assistance. These recommendations had been made to the Department from April 1991 through July 1995 by GAO, OIG, and the former Permanent Subcommittee of Investigations, Senate Committee on Governmental Affairs. GAO concluded that most of the actions initiated had the potential to remedy the problems underlying the recommendations. We continue to make improvements and take these issues very seriously.

Q: **Recently, a direct loan school acknowledged a problem with one of its PLUS loan applications. The Utica Center staff (CDSI) performed the credit check on the borrower and no indication of adverse credit was disclosed. So, the school disbursed loan funds to the borrower. However, after the cut-over to the Montgomery Origination Center (EDS), the same PLUS borrower was denied a loan due to a determination of adverse credit from a second credit check.**

Why didn't the Montgomery system reveal that the Utica staff completed the credit check? Why did the Montgomery Origination Center perform the second check? Did the Department pay the Montgomery Origination Center for the second credit check, even though it was not required? How may disbursement records have been rejected due to this error? How many PLUS borrowers have been affected by this error?

A: The contractor did experience a problem involving credit checks for PLUS loans. It wasn't that additional credit checks were performed, but that a field was incorrectly populated during data conversion, which resulted in some schools being provided inaccurate credit results. After the contractor became aware of the problem, a correction was made and the affected schools were contacted and provided accurate data. We will be happy to research any problem experienced by a particular borrower if the borrower's identifying information is provided to us.

Q: **Last year, direct loan schools discovered that the Department's Public Inquiry Contractor was provided the incorrect school code to students completing the Free Application for Federal Student Aid (FAFSA). All of the direct loan school codes were incorrect. After much confusion between schools and students, the Department announced that the problem would be fixed for the 1997-98 academic year. However, several direct loan schools have found that the information was, in fact, not corrected. And since the Department did not announce the problem still exists,**

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direct loan schools have yet to receive vital information for students and their families who are planning to attend these institutions.

Questions: Why didn't the Department require the Public Inquiry Contractor to update its system? What happened to all the student records that contained the wrong code? If the Public Inquiry Contractor could not change its system, why didn't the Department require the Central Processing Center staff to identify the correct school code while it processed the FAFSA paperwork and forward the information using the correct school code? How many students were effected by this error?

A: This error was caused during the 1996-97 award year by the inclusion of incorrect school codes in the booklet the Department provides for students to use when identifying their school of choice on the FAFSA. Use of these codes resulted in schools being unable to access the FAFSA data for those applications electronically. When the error was brought to the attention of the Department, a correction was made to the software which linked the incorrect school codes with the corrected codes, and the applications were reprocessed so they could be accessed by the schools. This involved 3,607 applications out of approximately 10 million processed.

Due to an oversight when preparing the new software for the current year (1997-98), unfortunately the correction was not brought forward from the prior year. As soon as the problem was detected, the Department revised the current year software with the correction and reprocessed effected applications. This involved 4,216 applications, again out of an approximate universe of 10 million. Although not a serious problem, such oversight is inexcusable and I accept responsibility and apologize. The problem has been corrected and will not recur.

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The CHAIRMAN. Well, thank you very much for your statement.

The first question I have is that I know early on the administration stated they would have their recommendations for changes in the Higher Education Act this spring——

Mr. LONGANECKER. It is a long spring, isn't it?

The CHAIRMAN. That is right. I hope you do not extend it for too long. Do you have any idea just when you might have those suggestions to us?

Mr. LONGANECKER. Well, I am now saying 6 to 8 weeks. I think that that is what I said the last time I appeared before you, which was about 6 to 8 weeks ago. We are hoping very much to have it to you within that period of time.

Our dilemma has been that the President has been so keen on higher education this year that working with the White House on the initiatives has taken much more time than we anticipated, so we simply have not gotten our work done. But we are still looking in that time frame of 6 to 8 weeks, so this summer, we will certainly have something to you.

The CHAIRMAN. Well, are you going to include recommendations with respect to the utilization of tax expenditures; is that the hold-up, or——

Mr. LONGANECKER. No. Actually, the tax expenditure piece, we have put into the bill, and it has been submitted. Those are pretty well-cemented. It is really the more significant changes to the Higher Education Act. The "big think" ideas are out there—the tax credit, the principal changes to the need analysis that are related to increasing Pell and others. But as you are aware, the Higher Education Act is many titles with substantial complexity, and essentially trying to come up with a strong proposal from the administration to you that fits within the context of a balanced budget has been a challenge.

Just to give you some hints about where we are headed, we have taken a good look at the consensus position from the higher education community, and where the higher education community had consensus, we are pretty close to where the higher education community is coming out. I think you will find a great deal of similarity. In some areas, we will be more bold than was reflected in that, in some cases, perhaps less so. But we will be getting that to you as soon as possible.

And I would ask my staff to begin to sit down with yours and start to get some sense of where we are headed as well.

The CHAIRMAN. I would hope so, because I am anxious to move and to allow the people of this Nation to understand just where we are going with respect to this very critical area.

Mr. LONGANECKER. We sure appreciate that.

The CHAIRMAN. And I want to work with you in any way we can. Will that also include the changes to which we were referring earlier, the difficulties in the administration, or will that be separate?

Mr. LONGANECKER. Yes. Where we think it is appropriate to get changes in the administration of the programs, we will propose those; that is correct.

The CHAIRMAN. And that will be coming up in the same package?

Mr. LONGANECKER. Yes.

The CHAIRMAN. OK. I would hope you could, if appropriate, deliver pieces that are ready so that we could move ahead and try to build our own structure.

Mr. LONGANECKER. You bet.

The CHAIRMAN. OK. I would like to turn just briefly to the direct lending program. I am one who wants to see both programs working together. I think that we can learn a great deal from that, and I think the evidence is fairly clear that the advent of direct lending has brought about some improvements with respect to the programs already in existence, and hopefully, we can continue to work together to improve both programs.

With respect to the direct lending organizational system, there are, as you know, some problems which you would anticipate with a large program in its infancy. I note that it failed to pass the acceptance testing, but was put into production anyway. Could you explain how that occurred and what risks, if any, that is creating for our institutions?

Mr. LONGANECKER. Well, I will let Betsy answer that specifically. Actually, it passed all of the acceptance testing at every stage. If you do not mind, I would like to ask Betsy to address that.

The CHAIRMAN. Certainly. Please proceed.

Ms. HICKS. Thank you very much.

I think you are aware that our current contractor for direct loan origination is EDS, and it is true that they were supposed to start up a year ago and failed to do so. As a result, we did go back and redefine the particular milestones that we would put in place to measure their progress toward a more successful start-up.

Those milestones were put into place about a year ago, in May of 1996, and EDS did meet all of those milestones, including system acceptance testing. As a result, we did go forward with the transition on March 3rd. There have been some problems, as Dr. Longanecker indicated in the testimony. I think it is important, however, to put those problems in the context of what has occurred. Since March 3, over $1.3 billion has been disbursed. That would be an amount of money that approximates the amount of money that the largest FFEL lender would have disbursed for the entire fiscal year 96 year.

The problems that occurred had to do less with failure to pass testing than they had to do with converting over 4.5 million records from one contractor to another and just taking that converted data. You do not have the luxury in a program as large a direct loans, to actually have everything cease. The trains keep running, the data keeps running in, and that data needs to be converted. So it was from that period of time where we stopped the work at the former contractor and before we started the work at the current contractor that we had data that presented some unique problems as we transitioned it.

We have worked very hard with the servicer to try to address these problems. We have had a very aggressive communications strategy for our customers; we have kept them informed through daily faxes about what is going on. We do believe we are seeing resolution of those problems, and we are learning lessons from all of this so that as we face similar transitions in the future, we will

know what additional safeguards to put in there besides the ordinary testing that takes place.

The CHAIRMAN. As you continue to work to establish an integrated student data base to manage student aid programs, which of the current systems or contracts will contain the new system's central database?

Ms. HICKS. I am sorry. Could you repeat the last part of the question?

The CHAIRMAN. Which of the current systems or contracts will contain the new system's central database?

Ms. HICKS. All right. The central database is the database that we will put in place—that we are putting in place—in order to perform the function of what we refer to as the "traffic cop." Again, as David Longanecker mentioned, we are moving to multiple servicers for direct loans. Given the volume that we have—we have disbursed more than $18 billion—we would have capacity problems in the near future if we did not move from one servicer, which is what we have now, to multiple servicers. What the central data system does is it acts as a traffic cop so that as a borrower borrows, his or her loans are all directed to the same servicer. One of the goals we are trying to achieve in direct loans is a single point of contact for the borrower, something that we do not have in the FFEL program, which we find is very advantageous to the borrowers to know exactly with whom they are going to be dealing as their loans go into service.

The contract is a contract that was awarded to CDSI. They are our original contract in direct loans. They originally had all of the contracts for origination, servicing and the central data system. As we explained we are migrating those contracts away from sort of a bundled contract into separate contracts, so the first migration was moving the origination function, which we did, from CDSI to EDS. We will bring up additional multiple servicers in mid-August, as Dr. Longanecker mentioned.

The central data system, which is being developed by CDSI, will remain with them until the remainder of that contract.

The CHAIRMAN. The higher education community has suggested that you need to make significant improvements in the management of the student aid programs. I am not sure you have heard these criticisms, but if so, do you have any reactions you would like to shake this morning?

Mr. LONGANECKER. Sure, let me give you some. We think we have put together the management team to handle this. We think the management systems is an area that needs to have continual—I should not even say "continual"—radical reinvention from where it has been.

We have, as others have indicated in their testimony, developed stovepipe systems over time that were tied to the past rather than looking to the future, and that is clearly something we must move away from.

Direct lending shows how successful new approaches can be, and we have been extremely successful in that, so we want to as rapidly as possible make that transition from those old, stovepipe or what are called "legacy systems," to a modern, integrated computer system. We think we have the management team to do it. The Sec-

retary has pulled together people who have a great deal of experience on the political side, and we have hired an exceptional team of career people to come in and work on this in the future, so we think we have got the right people stock. Now what we need is to get a much stronger set of computer systems behind us to move to this. And part of the task of EASI is to try to find a way to make that transition from where we are today to where we should be in the future as rapidly as possible, but without tremendous dislocations in the delivery of service.

The CHAIRMAN. I have a couple of questions resulting from field hearings. My first question comes from a woman who is a nontraditional student and who also has children who are students. She wondered if it is possible to either coordinate or consolidate the loans that people in her type of situation receive in what has increasingly become the modern-day educational situation. Does that create a problem, and do you have any suggestions? If you do not now, I would appreciate a response in the near future.

Related to that, my next question came from a field hearing held in Maine last week about the PLUS loans. Some parents have two, three, four, five or six young people in college for whom they have taken out PLUS loans. They would like to know why they cannot pay with one check instead of six checks. Does that create a problem for you? I know you may not have thought about these things, but they come from out there in the real world,and I wondered if you could give us some help especially on the consolidation of these kinds of loans.

Mr. LONGANECKER. Let me just sort of philosophize for a second, and then Betsy can give you a better answer. We have been thinking an awful lot about student indebtedness and parent indebtedness and overall indebtedness and how we can finance this enterprise and how we can bring that all together. And indeed, we have worked with Congress over the years to come up with consolidation packages and income-contingent repayment and all of those things.

One of the areas that many people are bringing to our attention now is the tremendous amount of debt that is being incurred in either education expenses or related expenses that is not officially student loan debt—credit card debt and other things. And frankly, it is a very important issue and a very difficult one to get one's hands around, because we have not provided any guarantees on that, and trying to find the most reasonable way to deal with that is mighty tough, but we are trying to struggle through that much as I suspect you folks are, and I think we probably ought to do some of that struggle together in meetings where we talk about it, because I do not know how we can come to grips with that.

Now, with respect to consolidating PLUS loans, I will let Betsy answer that.

Ms. HICKS. let me just background a little bit. First of all, I think we all realize that lifelong learning will occur, and one of the five goals of EASI is to make sure we have the system to support lifelong learning, so we are going to see more and more situations where you have parents and children both attending institutions, and I think we ought to look at the complexity that that creates for a family in terms of the way that they might want to go about approaching the repayment of loans.

This is a whole area that is near and dear to my heart. My husband and I are about ready to graduate two children from college, so we know what it means to have financed and education and to be helping our children.

Right now, an individual student can consolidate his or her loans. What cannot occur is that a parent cannot consolidate PLUS loans with student loans. It might be something that should be looked at.

In terms of consolidation of PLUS loans, I must admit that I am a little rusty myself on that. I do not believe—well, I do think you can consolidate PLUS loans, but I think that what we need to differentiate in the example that you gave is whether the parent was actually looking for a lower payment or whether they were looking to just make one payment for five or six loans.

What can occur, which is difficult, is that—I believe you can consolidate—and I will check this—PLUS loans if they are for the same student. I do not think you can consolidate when they are for different students.

The CHAIRMAN. These are for different students.

Ms. HICKS. Yes, and that I think is the bigger issue, along with the issue of whether the parent might want to take on the student loan as part of that consolidation, because families do view this more as a family enterprise than they might in less of an integrated fashion of a parent debt and a student debt. So I think we should look at how we can facilitate the repayment of those obligations.

The CHAIRMAN. The Government Performance and Review Act consultation document you provided the committee indicates that the lifetime loss rate for the 1992-1996 student loan cohort is projected to drop from 8.3 to 7.5 percent for the FFEL program. I am pleased with this downward trajectory, obviously. According to those same documents, the lifetime loss rate for the 1994-1996 student loan cohort is projected to rise, however, from 6.3 to 7.4 percent for the direct loan program. This upward trajectory concerns me. What steps are you taking to contain the growth of this loss rate?

Mr. LONGANECKER. The reason why that went up is because there was a very highly selective group of institutions that were in the first year of the direct loan program, and as we opened that program up to basically all institutions, the nature of the portfolio changed substantially; that is basically the reason.

We expect that those programs will have similar long-term loss rates with the direct loan program being slightly less because of the better repayment terms that are available to students, and one of the substantial advantages that we things students have in that program is the opportunity to consolidate into the income-contingent or to essentially select the income-contingent.

The CHAIRMAN. Do you have any records on the utilization—I realize it is pretty early—of the income-contingent aspect? Are there people utilizing that already?

Mr. LONGANECKER. Yes, yes—actually, a large number of students are opting for it. But it is so early in the repayment streams that it is very difficult to draw much from that.

Ms. HICKS. I could add some comments to that. We are seeing more usage of income-contingent repayment by defaulted borrowers. The Department has as part of student financial assistance a service known as debt collection service where we take over defaulted loans where others have been unsuccessful in collecting on those loans. We have encouraged defaulted borrowers to consolidate loans and to then take advantage of income-contingent repayment as a way to make the payment more in line with where there income is, and over half of the borrowers who have consolidated in direct loans have chosen income-contingent repayment. And again, it is too early to make any conclusions one way or the other as to whether it is successful or not successful, but we are seeing that many of these borrowers who were unable to make payments when they were in standard repayment are remaining current with their payments under an income-contingent repayment mode, and that is after we factor out students who would have a zero payment, because obviously that would skew the results.

The usage, however, of income-contingent repayment for non-defaulted borrowers is only about one percent to date, and I believe that will become more popular over time as borrowers to talk to each other about repayment options.

The CHAIRMAN. When they move to income-contingent repayment, are they no longer in default?

Ms. HICKS. If they consolidate, what happens is that the consolidation will pay off the defaulted loans, and they are given a fresh start; and if they remain current based on the payment that is a result of the income-contingent repayment option, then they would not be a defaulted borrower. That is part of what we are trying to do here, is to develop as many tools as possible to help borrowers in repayment. Some of those tools are more negative—wage garnishment and litigation—others are more positive.

The CHAIRMAN. Well, refresh my memory about the income-contingent loan. How do you get involved? I thought that it was IRS, is that not accurate?

Ms. HICKS. That is true, yes. Income-contingent repayment is an option that currently only exists in the direct loan program, and it requires matching information with IRS. In the first year, you do not have that occur; the borrower would actually submit information on his own, but there are subsequent matches which we have been doing successfully with IRS.

Mr. LONGANECKER. But the actual servicing is done by the Department's contractor.

The CHAIRMAN. On a continuing basis——

Mr. LONGANECKER. Yes.

The CHAIRMAN [continuing]. Or initially?

Mr. LONGANECKER. On a continuing basis. The IRS' only involvement is in providing us with verification of income.

The CHAIRMAN. OK.

Ms. HICKS. The match with IRS is similar to the matches we do with other Federal agencies. Those other matches are done for purposes of determining the applicant's eligibility. We do matches with INS and Social Security and Selective Service.

The CHAIRMAN. Now, with respect to the FFEL program, do you recommend that we at least consider the income-contingent repayment, especially for those in default?

Mr. LONGANECKER. We actually have considered that. We did not include that in our requested changes for the program. One of the principal reasons for that is because it is very difficult to share information on income from the IRS—well, "difficult" is modest—the IRS has no interest in sharing income with private vendors for reasons of privacy and integrity in the tax system. They are willing to share that with another Federal agency for a Federal program, but they were not for purposes of independent lenders having that income information.

The CHAIRMAN. Well, we will talk to the IRS about that aspect of it, but if someone is in default, it would certainly be conceivable or possible that we could——

Mr. LONGANECKER. Oh—virtually all of these folks that Betsy mentioned were defaulters in the FFEL program who then brought their loans into the direct loan program and went into income-contingency payment.

The CHAIRMAN. OK, so that option is available.

Mr. LONGANECKER. So we are offering that option to a student in either program, so that they have the opportunity to restore their credit.

The CHAIRMAN. OK. So that option is now available.

Mr. LONGANECKER. That is correct.

Ms. HICKS. That is correct. So they were borrowers where the lender in the FFEL program was unsuccessful in collecting, was reimbursed by the Federal Government, the guaranty agency.

The CHAIRMAN. So they turn them over to you, and then you encourage them to go into a——

Mr. LONGANECKER. That is correct.

Ms. HICKS. That is correct. So they actually represent some of the more difficult borrowers.

The CHAIRMAN. Oh, yes, obviously.

Ms. HICKS. And so it is encouraging to see that this tool might, as I said, be a more positive tool than some of the other tools we have available.

The CHAIRMAN. OK.

Ms. HICKS. If I could go back just quickly to the issue that you raised about how do we monitor for defaults, the beauty of the direct loan program is that because the servicers perform under a contractual arrangement, we can take advantage of performance-based contracting to put in place incentives to actually encourage the servicer to reduce delinquency, late payments, in the hope that by preventing those delinquencies, we can then have a positive impact on default.

So that rather than focusing on due diligence, which is what occurs in the FFEL program, which is simply going through a series of steps in order to ensure the borrower receives proper notification about repayment, we try to encourage servicers to be creative in the ways in which they make contact with the borrower and reduce these delinquencies.

We will also have the ability with multiple servicers to get the competitive forces to work so that again we can encourage higher

performance in this area. So we look forward to seeing how that develops and sharing those results with you.

The CHAIRMAN. Thank you.

Senator Coats.

Senator COATS. Thank you, Mr. Chairman.

I apologize to you and to the panelists for not being here for the full discussion, and I hope I am not repetitive in my questions. We have the usual schedule conflicts this morning, but I did want to be here just to follow up on a couple of items.

I guess I need to start by saying that I come to this discussion very skeptical of the ability of the Federal Government to run an effective program. I know that many of them are well-intended. I remember when the First Lady came here and introduced her health care plan, and I challenged some of the basic assumptions, one of which was that in my 21 years of Government service, I have never come across a Federal program that was run as efficiently or as cost-effectively as a private sector program. And I asked the First Lady if she shared that belief and if she could identify a Federal program that was equal to or more efficient than a private sector program, and she said she could not, but she thought that the health care program that she had designed along with others would be the first example of that.

So I start with a healthy degree of skepticism about the ability of a Government program to be run more efficiently than in the private sector. I think it is the nature of Government to run into bureaucratic challenges like those encountered by the private sector, but because the private sector has shareholders to whom they are accountable in a way that Government programs do not seem to be accountable to taxpayers, the private sector is out of business if they do not compete successfully, and the Government is not.

So this whole question of the direct loan program and the ability of the Department to be able to construct the kinds of procedures necessary to run an effective program that is not going to cost the taxpayers a lot of extra dollars concerns me.

In that regard, on May 1, the congressionally appointed Advisory Committee on Student Financial Assistance recommended a fundamental overhaul of Title IV, the student aid delivery system. The chairman of the Advisory Committee, Mr. Alexander, who will testify in the next panel, stated something that I found very alarming, and I am going to quote him. He said that the committee was compelled to recommend "dramatic action to prevent a complete system breakdown." Now, those are pretty strong words. A complete system breakdown would be an extraordinary waste of taxpayers' dollars. I am just wondering what your response is to that and whether you are prepared to make the necessary changes if you agree with the Advisory Committee recommendation.

Mr. LONGANECKER. Let me address that. There are a number of points there. In my 21 years of public service, I have spent most of that trying to basically demonstrate that you could have strong performance in public programs, so you might imagine that I come at this from a little different perspective than you do.

I also think that direct lending is that example that you were looking for. In 3 years, we have garnered one-third of the market share. MCI and Sprint were not able to do that against AT&T. It

took then 8 years to get to one-third of the market share. In 3 years, we were able to garner; we clear set the industry standard. Our turnarounds are much higher than the industry averages. We are performing better than almost everybody in the FFEL program—I would not say everybody. We have a very——

Senator COATS. In that regard, all right, let us take that. What is the total percentage of schools that are now participating in the direct lending program?

Mr. LONGANECKER. About 1,290 schools out of roughly—well, no, about 5,300 in FFEL, so that's the relative difference—so about 20 to 25 percent of schools are in the program, 30 percent of the loan volume.

Senator Coats. That is significantly below what the Department originally estimated, though, wasn't it? I mean, we were told in this committee that schools would line up for this because it was so much more cost-effective.

Mr. LONGANECKER. Well, a lot of schools did line up. I guess it sort of depends on whether you see this as a glass half-empty or a glass half-full.

Senator COATS. How may of schools have dropped out, were originally in and then dropped out of the program?

Mr. LONGANECKER. Those that had originated loans and dropped out I think are about two or three. I may be wrong on that.

Ms. HICKS. It is a little higher, maybe.

Mr. LONGANECKER. That actually did some volume——

Senator COATS. Well, wait a minute——

Mr. LONGANECKER. There were a number of programs that expressed interest, that submitted an application, but never originated within the program, and that is about 300 schools, 200 to 300 schools.

Senator COATS. Schools that actually originated with the program, there are only two or three that have withdrawn?

Mr. LONGANECKER. Betsy tells me I am a little low on that. It is a very small number.

Senator COATS. Betsy, do you have a number on that?

Ms. HICKS. Yes. I think the differentiation you are looking for here, Senator, is the differentiation between schools that are eligible to participate and schools that actively participate and then, once they actively participate, whether they change their minds. And there is a phenomenon in all of our programs where schools will indicate they intend to participate, but many of them never move to that active status. That occurs more commonly in loan programs and among schools that have less loan volume, fewer students involved.

Senator COATS. Do you know the reason why they make the application and indicate they want to actively participate but then withdraw?

Ms. HICKS. They want to keep their options open. Interestingly enough, this even happens in the Pell Grant program, where they will say they intend to be an active participant; if no student shows up who meets the student eligibility criteria, then they would not be active.

But if you look at those who are actually active and have made a loan and subsequently dropped out, I do not know the exactly

number, but I believe it is less than 10, and we can certainly check on that.

Senator COATS. If you could furnish that for the committee, it would be every helpful.

Ms. HICKS. Yes, right. I would be glad to do that.

Mr. LONGANECKER. I can also help you. Some of those schools have told us why. The reasons why a couple of those, or at least one of them told us it had nothing to do with the program, that they just decided to go back to a bank-based system. They were not disappointed with the service; they had other reasons.

One of the reasons the 300 have indicated they did not come in——

Senator COATS. We are talking about the direct loan program now?

Mr. LONGANECKER. Yes, yes.

Senator COATS. Not the FFEL program, but direct lending.

Mr. LONGANECKER. Yes, right. Keep in mind that 1,290 institutions dropped out of the FFEL program intentionally and joined the direct loan program, so that as we are looking at relative numbers here, you could look at it that way as well.

Senator COATS. Would you both agree that it would be important to keep a competitive balance between the public and the private sectors in this, to help each other offset the temptation to——

Mr. LONGANECKER. The administration's position is that we support two competing programs at the present time, and we want to maintain both of those. I would say, though, that I think you are in error in saying that this is the difference between a public and a private program. These are two public programs. Both programs subsidize very heavily the cost of the loans to students, and those are public subsidies. They are operated by the private sector in different ways. We use the private sector on a price-competitive model basis with our contractors. The FFEL program, we pay the private sector basically the same amount of money regardless of whether they do the job well or not, and we think that ours is a much stronger use of the private market competitive forces.

Senator COATS. Given that, I am surprised that only 25 percent of the schools have signed up.

Mr. LONGANECKER. Well, we actually would have expected a lot more, except there has been so much noise around this over the last couple of years that for good reason, a lot of institutions have told us that until they believe that the Congress and the President will not be spitting at each other on this one, that they are going to wait and see.

Senator COATS. But you do think that it ought to be competitive; so, should there be a cap on the total amount who sign up for the direct lending program?

Mr. LONGANECKER. No. We think they should be allowed to compete head-to-head—and on fair terms.

Senator COATS. OK, without any bias one way or the other.

Mr. LONGANECKER. Yes.

Ms. HICKS. If I could make one request, that is that while I think it is very important to count number of schools, I am not sure that that is the manner in which we really should be looking at participation in any one program. And I say that for several reasons.

First of all, a school has an option to present itself as either one school or several schools. That might strike you as odd——

Senator COATS. No, it does not.

Ms. HICKS [continuing]. But if you take a very large university, it might decide——

Senator COATS. Right. Indiana University has several campuses.

Ms. HICKS [continuing]. Right, so it might decided to be one school in one program and several schools in another program. So I am not sure it is the right measure to use to count.

The other problem is that the universe of schools changes dramatically because over half the schools in the Title IV program are proprietary, there are much like small businesses, so they do come and go; you will see closure, you will see terminations. You will see closure and terminations even in the direct loan program as young as it is.

I think we might do better to actually count number of recipients or number of dollars. And again, I am not trying to avoid the issue that number of schools is important, but I think it is more of a fluid universe than we might want to look into.

Senator COATS. What about your reaction to the Advisory Committee's report?

Mr. LONGANECKER. Let me address that. Senator Coats, this system is not close to meltdown.

Senator COATS. So you do not agree with the Advisory Committee's report?

Mr. LONGANECKER. I think that that is a substantial overstatement. Having said that, let me also State that we think the entire system should be redesigned. It is not a modern system. It needs to be contemporized. We need to have an integrated system that brings all of our programs together. We are in agreement with the Advisory Committee on that. If we do not do that, we will continue to provide student financial assistance; it will be the current process, which is more tedious for the schools and the students than it needs to be, but aid will be delivered—it will not be delivered as efficiently as it should be, but it will be delivered. We have——

Senator COATS. Do you have an estimate of the cost of that redesign?

Mr. LONGANECKER. That redesign, no, I do not. In August and September, we will have the full architecture laid out before us by the folks who are working on Project EASI with us, and that will lead us to being able to tell you precisely what we think the time line is and the nature of the costs involved, and those costs will be a good investment because they will lead to substantial savings in the long run from the integration of our system.

Senator COATS. That is what we hear about every proposal that comes before this committee.

Mr. LONGANECKER. But we will deliver on it.

Ms. HICKS. If I could add a few comments, I appreciate the insights that the Advisory Committee provides, but I also think that this is an overstatement of the current situation, that we are not close to meltdown.

I think that some of the problems that we have experienced in the past, especially with the issue around the direct loan service for this year and the FAFSA processing last year, are problems

that occur because we are moving ahead in two very important areas. One is to increase controls, to increase accountability. That is very evident in the direct loan system, where we are trying to ensure that all of the data that is immediately put into the system is accurate. That is much different than how the FFEL program operates, where you manage by auditing.

So that when the current servicer was not accepting data from the schools, it was because the edits were very strong edits and were editing out data that would not meet those qualifications. That is the way to run a program.

Senator COATS. Wouldn't it have been better to have done that before you jumped into the program—I mean, set up the system. I cannot imagine a business starting a new program and saying we will start the program, and then we will put the system in place to handle it.

Ms. HICKS. No. The system has always been in place. What always occurs here is that when you have almost 1,300 schools actively participating in the program and different players at those schools, they will follow the instructions with different degrees, and so not all the data that schools will submit will meet the edits. So one of the things that we are addressing is how the new contractor will perform what we call "work-arounds" to help facilitate moving that data into the system. But I still believe that that is a much better way to run a program than to have data end up in NSLDS that is inaccurate data that needs to be corrected after the fact and is only made known several years later.

Senator COATS. A number of institutions have contacted me, stating that they do not have any trouble getting the money, but they have trouble getting the necessary records, and therefore it poses a problem in terms of accountability and recordkeeping and so forth. Where do we stand on this whole issue?

Ms. HICKS. I believe you might be talking in particular about something we refer to as reconciliation, and it is a bit of misnomer. It is a process that does not actually reconcile the funds; we have a separate process which I can explain a second that does that. It really provides for data matching. And again, this was something we traded early on in the program to ensure data integrity. It requires that schools resubmit the same data they have given to the direct loan originator to make sure that a loan is complete and that there are no incomplete loan records in the system, and if there are, they need to either complete those loans or check with the borrower as to what the borrower intends to do, if the borrower has not gone through an action.

The true reconciliation of the funds takes place through other systems where, within the Department, we will look at the funds that schools have drawn down and measure those drawdowns against the loans that have been disbursed within the system, and if we see drawdowns far in excess of the disbursements, then we go into action with a special team in order to ascertain exactly what has gone on and why we are not seeing loans being disbursed that approximate that drawdown or are not seeing return in cash.

But if I could go back to the other point I was making in terms of why we sometimes have disruptions in the management of large computer systems, which is not unlike what occurs in the private

sector—in fact, as David explained, we are working in a public-private partnership with private contracts. But the second reason we experience difficulties is because we are trying to move ahead with new technology. For example, last year, with FAFSA processing, we moved to optical imaging. We think that this is a very important innovation which will provide better customer service; it allows us to access student records when they call on our toll-free line so that we can tell them the status of their applications. It also scans the data, which eliminates very labor-intensive and sometimes inaccurate key data entry. This is similar to scanning in the grocery store, but goes beyond that; it is intelligent character recognition, so that it actually recognizes what the applicants have written out.

That is a very important innovation, and it did not come without some disruption. We were fortunately able to move through that and now realize the benefits of that.

There are lessons learned as we face each one of these issues. We learn how we can do it better, and we immediately take those lessons and apply them to the other areas in which we are managing contracts.

Senator COATS. Well, we will look forward to continuing to monitor how all this is coming together. I would guess that at a 25 percent level or less, there is no need for us to worry about your exceeding a 50 percent cap or a 40 percent cap at any time in the near future, is there?

Mr. LONGANECKER. Well, the cap is actually on loan volume, and we are at 35 percent, expect to go to 40 percent, and no, we do not expect it to go—we will continue to encourage schools to enter the program and be glad and willing to accept them, but I do not expect that you will see us above 50 percent.

Senator COATS. Schools have complete independence in terms of whether they enter or do not enter in terms of their relationship with the Department—I mean, there is no bias against schools that opt the other direction?

Mr. LONGANECKER. Certainly not.

Senator COATS. You want to provide a true competitive——

Mr. LONGANECKER. That is right. Our desire is to serve the students and the institutions in the best way that we can serve them. I might just say that while I disagree with the characterization of the current State of affairs that the Advisory Committee laid out, I do think that we need to reinvent this system. They put an idea on the table that warrants our serious examination. Others have put other models on the table that warrant our examination, and we should not close those out as options, but what we need to do first is figure out what it is that we want to assure are the objectives of the system and then figure out the best management strategy for doing that.

Senator COATS. I have more than exceeded my time, and I appreciate your generosity, Mr. Chairman.

Thank you.

The CHAIRMAN. Thank you very much, Senator Coats. You have been very active in this area, and we appreciate your input.

In Vermont we have had a number of student complaints about information on your 800 numbers. I wonder what is going on with respect to your ability to respond to those calls which you receive.

Ms. HICKS. We do have several 800 numbers. Would you by chance know which of the numbers—whether it was what we call the general public inquiry contractor, where applicants call in when they are processing their FAFSAs, or whether it might be one of our more specialized 800 numbers?

The CHAIRMAN. Well, it is in Vermont; I do not know how many we have. I kind of doubt that there are very many.

Ms. HICKS. Yes. Well, I would need to know which 800 number they are calling, since we do have several, and I would love to follow up and see what the problem is.

Mr. LONGANECKER. Yes, we would like to work with you. Lately, quite honestly, we have not been receiving—last year during the time when we were having difficulty with FAFSA, obviously, we had tremendous volume, because students were calling in to find out over and over again, and that increased our capacity.

We receive over 3 million calls a year, so we are processing a great deal. But let us do some work with your staff, and maybe we can get on top of it. This is really news to me.

Ms. HICKS. We do monitor in all of our contracts response rate, number of calls that come in, number of calls that are abandoned, average length of time, and try to increase response rate when it dips. But that may not always be an indication of what an individual person calling has experienced, so I would love to follow up on it.

The CHAIRMAN. Well, thank you very much, we will have some additional questions for you in writing, but we have held the next panel up, I am afraid, as long as I feel we reasonably can.

I assure you we want to work together, and we all have the same goals in mind, so we look forward to continuing to work with you.

Mr. LONGANECKER. Thank you. It is good to be here today.

Ms. HICKS. Thank you very much.

The CHAIRMAN. I will ask our next panel to come forward, and as we have a number of witnesses to hear from on the second panel, I will make the introductions brief.

Dr. Bob Alexander, chancellor of the University of South Carolina, unfortunately had to leave because he had another engagement, but his testimony will be read by Brian Fitzgerald, staff director for the Advisory Committee on Student Financial Assistance.

The next witness will be Cornelia Blanchette, who is associate director for education and employment issues at the U.S. General Accounting Office.

Ms. Judith Flink is director of student financial services and cashiering operations at the University of Illinois at Chicago.

Mr. Barmak Nassirian is director of policy analysis at the American Association of State colleges and Universities.

And our final witness this morning will be Barbara Tornow, executive director of financial assistance at Boston University.

Thank you all for coming. I deeply appreciate it, and we will just go on down the line.

Mr. Fitzgerald, please proceed.

STATEMENTS OF BRIAN FITZGERALD, STAFF DIRECTOR, ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE, WASHINGTON, DC; CORNELIA M. BLANCHETTE, ASSOCIATE DIRECTOR, EDUCATION AND EMPLOYMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC; JUDITH FLINK, DIRECTOR OF STUDENT FINANCIAL SERVICES AND CASHIERING OPERATIONS, UNIVERSITY OF ILLINOIS, CHICAGO, IL; BARMAK NASSIRIAN, DIRECTOR OF POLICY ANALYSIS, AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES, WASHINGTON, DC; AND BARBARA TORNOW, EXECUTIVE DIRECTOR OF FINANCIAL ASSISTANCE, OFFICE OF FINANCIAL ASSISTANCE, BOSTON UNIVERSITY, BOSTON, MA

Mr. FITZGERALD. Thank you, Senator, and again, apologies from Dr. Alexander. He had a commencement this evening which required his departure. I will read his remarks into the record as written.

Good morning, Mr. Chairman and members of the committee. On behalf of the members of the Advisory Committee, I would like to thank you for the opportunity to provide testimony about Title IV delivery.

As you know, our committee has been charged by Congress with monitoring delivery for several years and has made many recommendations to Congress and the Secretary, all designed to improve system efficiency and integrity. The main theme I would like to stress in my remarks today is that the problems we now face in the Title IV delivery system have escalated to the point where dramatic action is required to prevent complete system breakdown. And rosy assessments and empty promises aside, there is broad consensus that action is needed very soon.

Having said that, however, I want to make it abundantly clear to you and to all in attendance that my remarks should not be construed as an attack on the Department of Education or any particular program—grant, work or loan. Our committee supports the Department and Secretary Riley as well as the existing Federal student aid programs. In fact, Dr. Alexander in fact was appointed by the Secretary to the committee.

The issue for the Advisory Committee is not that the Department or the student aid programs, but how Title IV systems and contracts are being managed within the Office of Postsecondary Education, OPE. Or, to put it another way, it is not that we believe that the Department of Education is incapable of managing the programs, but that OPE in its current structure cannot do so.

Indeed, there is strong feeling among our members that senior managers in OPE have largely ignored the need to make changes and, judging from their testimony at our last meeting, appear unlikely to make these changes any time soon.

Yet, contrary to what OPE has stated publicly, the concerns of the higher education community about these systems and contracts are not wrong-headed nor do they reflect any antagonism whatsoever toward the President or the administration. Rather, the community's deep concern about delivery represents an honest assessment that significant change is required in the management struc-

ture of these enormously expensive and complex systems to ensure the health of the student aid programs.

Without going into unnecessary detail about recent systems and contractual problems, let me just say that they have compromised all programs—Pell, the campus-based programs, FFEL and direct loans. The problems range from serious delays in forms processing to the inability to disburse loan funds to students.

The problems cut across all major contracts and systems—the central processing system which processes FAFSAs, the National Student Loan Data System or NSLDS, and the direct loan origination system.

In summary, Senator, our committee has found after careful study that the problems involved are systemic and pervasive. Our committee has also found that the problems appear to follow similar patterns.

Start with the fact that OPE's 10 outdated systems are very complex, inefficient and inordinately expensive. Add to this that changes to the systems are not designed carefully and are routinely implemented without adequate testing. Even worse, when new systems appear to fail adequate testing, they are nevertheless put into product, putting institutions and students at risk.

Even though OPE's systems and contracts require total redesign and integration, OPE has at least in the past strenuously resisted. Even now, they are only at the most rudimentary stages of requirements analysis that would provide the design and architecture for the new system.

However, despite not having identified and agreed upon the architecture, OPE seems to be ready to embark upon major hardware and software acquisitions.

The Advisory Committee has concluded that OPE's management structure and approach is simply not up to the task. It cannot provide the senior management and systems expertise necessary to deliver student aid programs which now constitute a $50 billion enterprise with total operating expenses—not just contracts, but total operating expenses—of nearly $625 million a year. It is a huge, complex financial system requiring a management structure and systems capabilities equal to the country's largest and best financial institutions.

For these reasons, our committee has recommended that the Department be required to restructure Title IV management systems and contracts into a performance-based organization led by a nonpolitical chief executive officer. The Department's inspector general has also recommended a PBO under chief executive officer leadership.

Once again, our recommendation should not be interpreted as an attack on the Department or the programs. We are merely suggesting that the structure, so important in Vice President Gore's program of reinventing Government—a performance-based organization—be implemented in student aid delivery. If we do not take this step now, if the status quo and business as usual persist, our fear is that escalating system cost and ever increasing system breakdown will inevitably lead to demands for complete removal of the programs from the Department of Education.

Once again, we feel the Department, if structured properly, can solve these problems. Accordingly, we strongly recommend that Congress require the Department to take the same step now that is being taken at some other agencies across the Government—implementation of a performance-based organization for student aid delivery.

I would be glad to answer specific questions you might have about delivery systems or about our proposed solution of a PBO.

Thank you, Senator.

The CHAIRMAN. Thank you very much for an excellent statement, and I certainly will thank the chancellor personally.

[The prepared statement of Mr. Alexander follows:]

PREPARED STATEMENT OF ROBERT E. ALEXANDER

Good morning, Mr. Chairman and members of the committee. I am Robert Alexander, Chairman of the Advisory Committee on Student Financial Assistance and Chancellor of the University of South Carolina at Aiken.

As you know, the Committee was first authorized by Congress in the Higher Education Amendments of 1986 to provide expert, independent, and objective advice and counsel to Congress and the Secretary on student aid policy issues and to make recommendations that will result in the maintenance of access to postsecondary education for low- and middle-income students. At the request of Congress, our Committee delivered its reauthorization recommendations for improvements on May 1 in four broad areas:

- access for low- and middle-income students;
- application and eligibility determination;
- loan program features; and
- management systems and contracts.

On behalf of the Advisory Committee members, I would like to thank the Committee for the opportunity to provide testimony about the Advisory Committee's reauthorization recommendations for the Title IV delivery system.

As required by statute, our Committee has been monitoring delivery since its inception and has made many recommendations to Congress and the Secretary in the form of letters and reports—all designed to improve delivery system efficiency and integrity. Over the years, we have stressed that ensuring efficiency, promoting program integrity, and avoiding system failure require an effective organizational structure, advanced financial systems, and tight contract administration. Yet the Department continues to conduct its student aid business through an organization without large-scale financial systems experience and with a dozen, outdated legacy computer systems that are inordinately expensive—$325 million in FY 1997, vulnerable to fraud and abuse, and prone to failure. Overlaying this fragmented, inefficient management and systems structured is a web of large, uncoordinated, uncompetitive contracts which fail to deliver on time and produce unacceptable cost overruns.

The main theme I would like to stress in my remarks today is that the problems we now face in Title Iv delivery have escalated to the point where dramatic action is required to prevent complete system breakdown; and there is a broad consensus that action is needed very soon. Having said that, however, I want to make it abundantly clear to all in attendance that my remarks today should not be construed as an attack on the Department of Education or any particular program—grant, work or loan. Our Committee supports the Department and Secretary Riley as well as the existing Federal student aid programs.

The issue for the Advisory Committee is not the Department or the student aid programs but how Title IV systems and contracts are being managed in the Office of Postsecondary Education (OPE). Or, to put it another way, it is not that we believe that the Department of Education is incapable of managing the programs; but that OPE, in its current structure, cannot do so. Indeed, there is a strong feeling among our members that senior managers in OPE have largely ignored the need to make changes and judging from their testimony at our last meeting, appear unlikely to make changes anytime soon.

Yet contrary to what OPE has stated publicly, the concerns of the higher education community about these systems and contracts are not wrong-headed. Nor do they reflect any antagonism whatsoever toward the President or the Administration. Rather, the community's deep concerns about delivery represent an honest assess-

ment that a significant change is required in the management structure of these enormously expensive and complex systems to ensure the health of the student aid programs.

Without going into unnecessary detail about recent systems and contractual problems let me just say that they have compromised all program operations: Pell, the Campus-based programs, FFEL and Direct Loans. The problems range from serious delays in forms processing to the inability to disburse loan funds to students. The problems cut across all major systems and contracts: the Central Processing System (CPS), the National Student Loan Data System (NSLDS), and the Direct Loan origination and servicing systems. In summary, our Committee has found after careful study that the problems involved are both systemic and pervasive.

Our Committee has also found that the problems seem to have a familiar pattern. Start with the fact that OPE's ten outdated systems are very complex, inefficient and inordinately expensive. Add to this that changes to the systems are not designed carefully and are routinely implemented without adequate testing. Even worse, when new systems fail acceptance testing they are nevertheless put into production putting institutions, states and students at risk.

Even though OPE's systems and contracts require total redesign and integration, OPE has in the past resisted strenuously. Even now, they are in only the most rudimentary stages of a requirements analysis that would determine the architecture of the future system. However, despite not having identified and agreed upon the architecture of the new Title IV delivery system, OPE somewhat incredibly appears ready to embark upon major hardware and software acquisitions.

The Advisory Committee has concluded that OPE's management structure and approach is simply not up to the task. They cannot provide the senior management and systems expertise necessary to deliver the student aid programs. Federal student aid is now a $50 billion enterprise with operating expenses of $825 million per year. This huge complex financial system requires a management structure and systems capability equal to the country's largest and best financial institutions.

For these reasons, our Committee has recommended that the Department be required to restructure Title IV management, systems and contracts into a performance-based organization (PBO) lead by a nonpolitical chief executive officer (CEO). The Department's Inspector General has also recommended a PBO under CEO leadership. Once again, our recommendation should not be interpreted as an attack on the Department or the programs. We are merely suggesting that a well-known management structure, one which is important in Vice President Gore's program of reinventing government—a performance-based organization—be implemented for student aid delivery.

If we do not take this step now, if the status quo and "business as usual" persist, our fear is that escalating system cost and ever-increasing system breakdown will lead inevitably to demands for the complete removal of student aid delivery from the Department of Education. But, our Committee believes that complete privatization holds potential risks for all parties involved—the Department, states, institutions and students. We feel that the Department if properly structured can solve these problems.

Thank you Mr. Chairman, for this opportunity to testify. I would be glad to answer any specific questions you might have about particular delivery system problems or our proposed solution of a PBO.

The CHAIRMAN. Ms. Blanchette.

Ms. BLANCHETTE. Mr. Chairman, I am pleased to be here today to discuss the information management systems that support Title IV student financial aid programs.

As you know, in 1990, GAO began a special effort to review and report on the several programs we considered at high risk because of vulnerability to waste, fraud, abuse and mismanagement. Title IV student aid programs have been included in each of the three series of high-risk reports we issued. In our latest series, issued in February 1997, we commended the Department for its improvement efforts over the last few years.

However, we noted continuing concerns about the Department's management and oversight of Title IV programs and the information systems in place to support the programs. My comments today are based on work we have done for our high-risk series and other

studies on Title IV programs, as well as ongoing work analyzing the Department's development and use of information systems.

In summary, GAO is concerned that without the effective information management that would result from fully implementing recent legislation—the Clinger-Cohen Act—the multiple, nonintegrated information systems currently operated by the Department may hamper its management of Title IV programs.

While the Department now has the National Student Loan Data System, it still does not yet have an accurate, efficient and integrated national system. Over the past 30 years, separate information systems have been developed to support Title IV programs. These multiple systems contain incompatible data in nonstandard formats—a situation that has led to inaccurate information, inefficient systems and high costs.

Federal student financial aid programs remain vulnerable to losses to a large extent because the Department, guaranty agencies, schools and lenders often do not have the accurate, complete and timely information they need to effectively and efficiently operate and manage the programs. The resulting program operation and monitoring difficulties stem from the lack of a fully functional database that covers all Title IV-A programs and integrates recipient information from all sources.

NSLDS is not such a database, but rather a repository for data from multiple data providers.

One of the causes of the current information systems' difficulties appears to be the lack of a sound, integrated information technology or systems architecture for managing the Department's portfolio of information systems that support Title IV programs. A systems architecture or strategy is a blueprint for developing and maintaining integrated information systems that are appropriate for an organization's mission, the operations that must be executed and their necessary relationships and informational needs, and ensuring that on a technical level, the rules and standards required for interrelated systems to work together efficiently and effectively over a network.

In other words, a sound systems architecture would ensure that the data being collected and maintained within an organization are structured and stored in a manner that makes them accessible, understandable and useful throughout the organization.

With respect to the totality of Title IV financial aid programs, the lack of a sound information systems architecture seems to have contributed in part to the development of a multitude of nonintegrated systems across the Department. This in turn has led to problems in systems interface and data exchange, confusion for users, and delays in program operations.

For example, large amounts of redundant data on financial aid recipients are generated by schools, lenders, guaranty agencies and several internal departmental systems and then stored in numerous databases. Often, data stored in these separate databases are in conflict with data in NSLDS as a result of differences in the timing of updates between data providers.

We also found that erroneous data submitted to NSLDS may result in duplicate loan records being created. Another related cause of the current information problems is a lack of common identifiers

for students and institutions, making it difficult to track students and institutions across systems.

Full implementation of the Clinger-Cohen Act of 1996 would provide the Department an opportunity to correct the information systems problems that we have noted. The Act requires, among other things, a top-level executive, a chief information officer responsible for developing, maintaining and facilitating the implementation of a sound and integrated information technology architecture. The Department has an acting chief information officer. However, it is too soon to predict how well the Department will implement this law. As a first step, the Department must develop a sound information architecture for Title IV programs to guide the Department as it makes key information management decisions.

Mr. Chairman, this concludes my remarks, and I will be happy to answer any questions you have.

The CHAIRMAN. Thank you. You get a gold star for finishing on the green light.

[The prepared statement of Ms. Blanchette follows:]

PREPARED STATEMENT OF CORNELIA M. BLANCHETTE

Mr. Chairman and members of the committee, we are pleased to be here today to discuss Department of Education information management systems that support the financial aid programs authorized by title IV of the Higher Education Act of 1965, as amended (HEA). These programs include the Federal Family Education Loan Program (FFELP), the Ford Direct Loan Program (FDLP), the Federal Pell Grant Program, and campus-based programs.[1] As you are aware, these programs are the largest source of Federal financial aid to postsecondary students. In academic year 1998–99, title IV programs will make available over $47 billion in loans, grants, and other aid to about 8.1 million students.

In 1990, we began a special effort to review and report on the Federal programs we considered at high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. Federal student financial aid programs have been included in each of the three series of high-risk reports we have issued. The Department has taken various actions over the last few years in response to recommendations made by GAO and others. Many of these actions have likely played a moor role in reducing the number of student loan defaults and the default rate.

While in our latest series we commended the Department for its efforts over the last few years in response to recommendations we and others have made,[2] we noted continuing concerns about the Department's management and oversight of postsecondary student financial aid programs and the information systems in place to support them.

Our comments today are based on the work we have done for our high-risk series and other studies we have done on Federal student financial aid programs, as well as ongoing work analyzing the Department's development and use of information systems (see list of related GAO products at the end of this statement). In summary, we are concerned that without effective information management that would result from fully implementing recent legislation—the Clinger-Cohen Act—the multiple, nonintegrated information systems currently operated by the Department may hamper its management of student financial aid programs.

MANAGEMENT OF TITLE IV PROGRAMS IS HAMPERED BY MULTIPLE NONINTEGRATED INFORMATION SYSTEMS

While the Department has taken actions to comply with HEA requirements for the National Student Loan Data System (NSLDS),[3] it still does not yet have an accurate, efficient, and integrated system for national student financial aid data. The Department continues to operate separate "stove pipe" systems and lacks a strategy to integrate the systems supporting the title IV programs.

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[1] The campus-based programs include the (1) Federal Work-Study Program, (2) Federal Perkins Loan Program, and (3) Federal Supplemental Educational Opportunity Grant Program.

[2] *High Risk Series: Student Financial Aid* (GAO/HR-97-11, Feb. 1997).

[3] NSLDS is the first national source of current student loan and grant data on student financial aid participants.

The Department relies on data in its student financial aid information systems to support a variety of student aid programs and financial operations. The 1986 HEA amendments required the Secretary of Education to develop NSLDS to ensure (1) the collection of accurate information on student loan indebtedness and institutional lending practices and (2) improved compliance with repayment and loan limitation provisions. The 1992 HEA amendments expanded the scope of NSLDS by requiring the Department to integrate NSLDS with the Pell grant applicant and recipient databases by January 1, 1994, and with any other databases containing information on student financial aid program participation. In response to these legislative mandates, in January 1993, the Department awarded a 5-year contract to develop and maintain NSLDS. Loan information is now transmitted to NSLDS on a regular basis by schools, guaranty agencies, and the FDLP

Over the past 30 years, separate information systems-including the FFELP System[4] for the guaranteed loan program, the Pell Grant Recipient and Financial Management System, the FDLP systems,[5] and now NSLDS—have been developed to support student financial aid programs. These multiple systems contain incompatible data in nonstandard formats—a situation that has led to inaccurate information, inefficient systems, and high costs. The fiscal year 1997 budget for contracts to maintain 11 separate, nonintegrated systems was $281.9 million and is expected to climb to $320.5 million in fiscal year 1998—an increase of $38.6 million, or 14 percent (see app. II). Through the 6-year period ending with fiscal year 1998, student financial aid systems' costs have tripled (see app. II).

Federal student financial aid programs remain vulnerable to losses as a result of fraud, waste, abuse, and mismanagement due to a large extent because the Department, guaranty agencies, schools, and lenders often do not have the accurate, complete, and timely information they need to effectively and efficiently operate and manage the programs. The resultant program operation and monitoring difficulties stem from the lack of a fully functional integrated database covering—all title IV financial aid programs that can integrate recipient information from all available sources. NSLDS is not such a database, but rather a repository for data from multiple data providers. Furthermore, as we reported in 1996, the Department's Office of Inspector General and we believe that the Department has not adequately tested the accuracy and validity of loan data submitted to NSLDS.[6]

One of the causes of the current information systems' difficulties appears to be the lack of a sound, integrated information technology or systems architecture for managing the Department's portfolio of information systems that support student financial aid programs. A systems architecture or strategy is a blueprint for developing and maintaining integrated information systems that are appropriate for (1) an organization's mission; (2) the operations that must be executed and their necessary relationships and informational needs; and (3) ensuring, on a technical level, the rules and standards required for interrelated systems to work together efficiently and effectively over a network. The architecture ensures that the systems have computer programs that can be transferred from one hardware configuration and/or software environment to another, and are maintainable, in other words, a sound systems architecture would ensure that the data being collected and maintained within an organization are structured and stored in a manner that makes them accessible, understandable, and useful throughout the organization.

With respect to the totality of Federal student financial aid programs, the lack of a sound information systems architecture seems to have contributed, in part, to the development of a multitude of nonintegrated systems across the Department. This, in turn, has led to problems in systems interface and data exchange, confusion for users, and delays in program operations. For example, large amounts of redundant data on student financial aid recipients are generated by schools, lenders, guaranty agencies, and several internal departmental systems, and then stored in numerous databases. Often data stored on these separate systems' databases are in conflict with data in NSLDS as a result of differences in the timing of updates between data providers. We also found that erroneous data submitted to NSLDS may result in duplicate loan records being created. The Department, with the guaranty agencies, is undertaking a major reconciliation effort to clean up the erroneous loan records.

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[4] The FFELP System has a number of subsystems—a debt collection system, guaranty agency system, lender and school system, and support system.

[5] The FDLP system includes an origination system, a central database, and four servicing systems.

[6] *Department of Education: Status of Actions to Improve the Management of Student Financial Aid* (GAO/HEHS-96-143, July 12, 1996).

Another related cause of the current information problems is a lack of common identifiers for students and institutions, making it difficult to track students and institutions across systems. The 1992 amendments required the Department to establish, no later than July 1, 1993, common identifiers for students and institutions. However, the Department's current plans for institutions do not call for the development and implementation of common identifiers until academic year 1999–2000. For students, the Department has required that all applicants for Federal student aid provide their Social Security numbers, which the Department has stated is its common student identifier. However, identification of student records across systems is still a cumbersome process because each system uses, in addition to the Social Security number, different combinations of data fields to uniquely identify, access, and update student records. This nonstandard method for accessing and updating student records across systems may be one of the factors contributing to the significant number of duplicate records on the NSLDS.

IMPROVEMENTS COULD RESULT FROM THE PROPER IMPLEMENTATION OF THE CLINGER-COHEN ACT

The Clinger-Cohen Act of 1996 makes agency heads directly responsible for effective information technology. Among their key duties, agency heads are to

—establish goals to improve the efficiency and effectiveness of agency operations and, as appropriate, the delivery of services to the public through the effective use of information technology;

—prepare an annual report as part of the agency's budget submission to the Congress on the progress in achieving the agency's information technology goals; and

—ensure that performance measurements are prescribed for information technology used or acquired by the agency and that they measure how well the information technology supports the agency's programs.

To help them carry out these new responsibilities, the agency heads are to designate a Chief Information Officer (CIO). The CIO is to be much more than a senior technology manager. As a top-level executive reporting directly to the agency head, the CIO is responsible for, among other duties, developing, maintaining, and facilitating the implementation of a sound and integrated information technology architecture.

The Department could benefit greatly by fully implementing the Clinger-Cohen Act. Full implementation of this law would provide another opportunity to correct many of the Department's student financial aid system weaknesses. The Department has recently appointed an acting CIO. However, because the law is in the early stages of implementation, as we reported in February 1997, it is too early to predict how well the Department will implement the law. We believe that, as a first step, the Department must develop a sound information systems architecture, as called for in the Clinger-Cohen Act, for the student financial aid programs to guide the Department as it makes key information management decisions.

Mr. Chairman, this concludes my prepared testimony. My colleagues and I will be happy to answer any questions that you or members of the committee may have.

For more information on this testimony, please call David B. Alston, Assistant Director, at (202) 512-6369 or Joseph J. Eglin, Jr., Assistant Director, at (202) 512-7009. Other major contributors included Paula N. Denman, Joel R. Marus, Glenn R. Nichols, and M. Yvonne Sanchez.

APPENDIX I

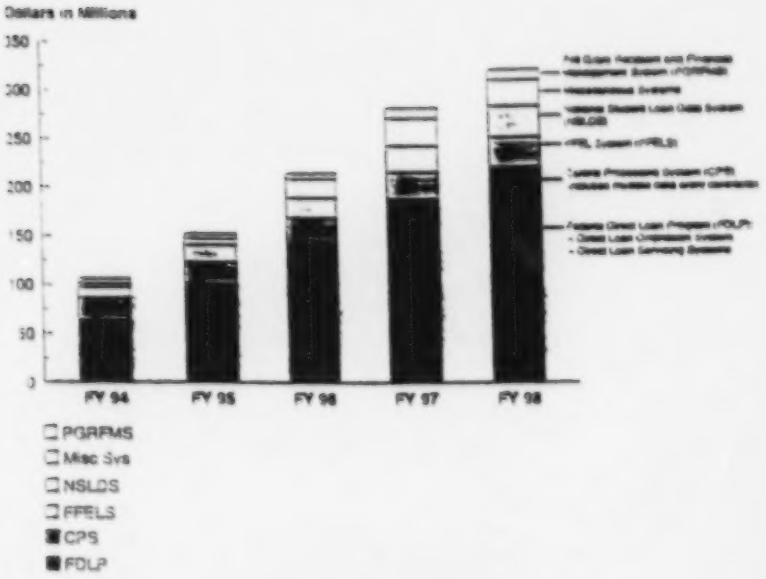
DEPARTMENT OF EDUCATION
STUDENT FINANCIAL AID SYSTEMS

System	Contractor	FY 98 Budget (dollars in millions)
Federal Direct Loan Program (FDLP):		$170.0
Direct Loan Origination System	Computer Data Systems, Inc. (old) and Electronic Data Systems (new)	
Direct Loan Servicing Systems	Computer Data Systems, Inc.; Electronic Data Systems; Raytheon/E-Systems, Inc.; and Education Loan Servicing Center, Inc.	
National Student Loan Data System (NSLDS)	Raytheon/E-Systems, Inc.	31.6
FFEL System (FFELS)	Raytheon/E-Systems, Inc.	30.5
Multiple Data Entry Contracts	INET and American College Testing	27.1
Central Processing System (CPS)	National Computer Systems	23.9
Title IV Wide Area Network	National Computer Systems	17.2
Pell Grant Recipient and Financial Management System (PGRFMS)	Planning Research Corp., Inc.	10.8
Project Easy Access for Students and Institutions	Price Waterhouse	5.0
Postsecondary Education Participants System	Computer Business Machines, Inc., and Mademech	2.5
Campus-Based Systems	Universal Automation Labs, Inc.	1.9
	Total	$320.5

APPENDIX II

APPENDIX II

STUDENT FINANCIAL AID SYSTEMS' CONTRACT COSTS OVER 5 YEARS



RELATED GAO PRODUCTS

High-Risk Series: Student Financial Aid (GAO/HR-97-11, Feb. 1997).

Reporting of Student Loan Foreclosure Rates (GAO/HEHS-97-44R, Feb. 6, 1997).

Department of Education: Status of Actions to Improve the Management of Student Financial Aid (GAO/HEHS-96-143, July 12, 1996).

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/T-HEHS-96-199, July 12, 1996).

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-96-49, July 11, 1996).

Federal Family Education Loan Information System: Weak Computer Controls Increase Risk of Unauthorized Access to Sensitive Data (GAO/AIMD-96-117, June 12, 1996).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33, Sept. 8, 1993).

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 18, 1993).

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

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The CHAIRMAN. Ms. Flink.

Ms. FLINK. My name is Judith Flink, and I am the director of student financial services at the University of Illinois at Chicago. UIC is one of three University of Illinois campuses, and it represents the ethnic and cultural diversity of the City of Chicago. Of the 26,000 students at UIC, a full 74 percent receive some form of Federal financial assistance.

Mr. Chairman, thank you for the opportunity to testify today. During my tenure at UIC, the university has moved to the technological forefront of institutions in its class. My involvement with this advancement has given me valuable experience for assessing other types of large-scale program systems. Among our technological improvements, we have seen a successful transition from a university-based student loan billing system to a contracted servicer and the installation of a campus-wide, integrated student information system. These projects have been accomplished through a long process of developing system specifications, drafting requests for proposal, selecting a contractor, and finally, installing the new system.

In my department specifically, I have seen the use of technology revolutionize our operations, availing us of the opportunity to cut costs, but more importantly, to provide better student service while simplifying our procedures. For instance, we implemented a multifunctional ID card last year which, among other things, serves as an on-campus credit card, meal ticket, parking pass, and library card, all in one. This card also provides a vehicle for immediate disbursement of financial aid refunds.

Further, we are using the Internet to provide our students with new levels of customer service, including making available student loan deferment and cancellation forms on a Web home page.

In other areas, our debt management software is being further revised for Internet access. Our division has recently acquired a telecommunication system that will enable us to broadcast voice messages to students concerning their aid disbursements, aid refunds and registration.

These same technological advantages offer the Federal Government the opportunity to greatly improve the delivery of Title IV aid to millions of students in thousands of institutions across the country. The technological disparity that exists between campuses like UIC and the Department of Education interferes with offering our students access to the information and services they need-specifically, the struggle to provide quality student service to keep our administrative costs low and to stay within Government regulations.

One example of this technological gap is the current status of the data in the National Student Loan Data System. As president of COHEAO, I have been involved with the school advisory group of NSLDS. This system was originally intended to replace the cumbersome, paper-based process of producing financial aid transcripts by providing easy access to student loan history and decreasing the number of technical defaults. At this time, the system is not totally populated. This means that student account information requested is often not reliable. Despite the requests by many in the higher education community that the implementation of the electronic fi-

nancial aid transcript be delayed until the system was fully populated and all error resolutions were processed, schools are being encouraged by the Department to use the system to verify financial aid eligibility. While use of the electronic financial aid transcript has helped by decreasing processing time, the gaps in the database open up the possibility of over-awarding students and allowing defaulted students to receive aid.

Institutions have also been required to invest substantial resources beyond our initial expectations to provide data to NSLDS. Significant problems with data error resolutions continue to exist.

Another Federal program that promised to enhance student service and reduce administrative expense was the Federal Direct Student Loan Program. Two of our three University of Illinois campuses are active in the direct loan program. Although we had minor problems during the implementation stages of direct lending, our initial years of participation in the program have been positive. For instance, with direct lending, we have only had to work with a single-point-of-contact lender, and as a consequence, the loan processing and approval process has been simplified. Loan funds are wired to the campus on a next-day basis after request for funds is electronically submitted by the school, and therefore, students receive their funds faster.

In addition, we have especially appreciated the competition which has created material improvements in both the direct loan and FFELP programs.

As direct of student financial services, I am responsible for the bidding, awarding and implementation of a number of servicing contracts with external vendors. It is our practice to formulate detailed implementation plans, carry out rigorous system tests and run parallel systems in full production for at least 30 days in order to secure a smooth transition to new systems. To my knowledge, the transition of accounts in the direct loan program in February was not accompanied by some of these similar precautionary measures. In point of fact, it is now apparent that many institutions have encountered significant setbacks in their administration of the direct loan program which directly resulted from this transition, including backlogs in loan consolidation and reconciliation.

Far too many resources have been invested in the direct loan program to allow the inefficiencies of the current originator to jeopardize the significant benefits this program brings to many students.

With the performance problems currently existing in the loan origination process, we are either in need of immediate procedural improvements with the current contractor, or even possibly converting back to the original contractor, where we did not see these problems.

Administrative efficiency and simplicity from the Federal level is needed to bolster the progress and effectiveness many schools are achieving with regard to delivery of student services on their campuses. this worthy goal will require a commitment to effective organizational structure, advanced financial systems, and tight contract administration. In the last 6 months, I have reviewed a number of interesting proposals that warrant further discussion. Among them are the following.

Numerous higher education groups have proposed that the Free Application for Federal Student Aid not only be available on the Web, but be equipped with the allowance for an electronic signature and data edits. This promising proposal would require the creation of a master application that would fully standardize the application process.

An Advisory Committee proposal which we feel is worthy of consideration is the implementation of a performance-based organization to handle the Title IV contracts and systems.

The American Council on Education has a proposal that addresses similar concerns. ACE recognizes that inefficiencies in Federal aid are not due to lack of dedication or professionalism on behalf of the Department of Education. Rather, they realize that inefficiencies are primarily attributed to the fact that no Federal agency possesses the practices that competition has forced the private sector to develop and utilize.

Overall, these proposals would make excellent improvements to the present system, and I am not hesitant to recommend them. Yet, what needs to be accomplished in the processing of Federal aid is more fundamental. It relates specifically to taking a student-focused approach to policymaking as opposed to a Government-focused approach.

I appreciate having the opportunity to testify before you today on these important matters.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Ms. Flink follows:]

PREPARED STATEMENT OF JUDITH NEMEROVSKI FLINK

My name is Judith Nemerovski Flink, and I am the Director of Student Financial Services at the University of Illinois at Chicago (UIC). UIC is one of three University of Illinois campuses, and it represents the ethnic and cultural diversity of Chicago. Of the 26,000 students at UIC, a full 74 percent receive some form of Federal financial assistance. In addition, I am also the president of the Coalition of Higher Education Assistance Organizations, an organization whose membership is comprised of educational and commercial groups for the purpose of advocating for federally funded student aid programs. Mr. Chairman, thank you for the opportunity to testify before you and your committee today.

During my tenure at UIC, the University has moved to the technological forefront of institutions in its class. My involvement with this advancement has given me valuable experience for assessing other types of large-scale program systems. Among our technological improvements, we have seen 1) a successful transition from a university-based student loan billing system to a contracted servicer, which drastically changed our operations, 2) the installation of a campuswide, integrated student information system, and 3) the design and implementation of new technology to improve customer service. These projects have been accomplished through a long process of developing system specifications, drafting a Request for Proposal, selecting a contractor, and finally installing the new system.

In my department, I have seen the use of technology revolutionize our operations, availing us the opportunity to cut costs, provide better student service, and simplify our procedures. For instance, we implemented a multi-functional ID-card last year which, among other things, serves as an on-campus credit card, a meal ticket, a parking pass, and a library card, all in one. This card also provides a vehicle for the immediate disbursement of financial aid refunds. Further, we are using the Internet to provide our students with new levels of customer service, including making available student loan deferment and cancellation forms on a Web page. In other areas, our innovative Debt Management software is being further revised for Internet access, and we are working to provide students with detailed online information about our services, as well as online student account information. Our division has also recently acquired a telecommunications system that will enable us to

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broadcast voice messages to students' voice mail boxes, as well as allow students to access valuable information about their accounts via the telephone.

These same technological advantages offer the Federal Government the opportunity to greatly improve the delivery of Title IV aid to the millions of students and thousands of institutions across the country now participating in these programs. The technological disparity that exists between campuses like UIC and the Department of Education interferes with offering students access to the information and the services they need in the timely fashion that is required. Specifically, the struggle to provide quality student services, to keep administrative costs low, and to stay within government regulations has been made more difficult on many campuses because modernization has not kept up within the agency.

One example of this technological gap is the current status of data in the National Student Loan Data System (NSLDS). As president of COHEAO, I have been involved with the School Advisory Group for NSLDS. The system was originally intended to replace the cumbersome paper-based process of producing financial aid transcripts by providing easy access to student loan history information and decreasing the number of technical defaults. At this time, the system is only 80 percent populated. This means that student account information requested is often not reliable. Despite the request by many in the higher education community that the implementation of the electronic financial aid transcript be delayed until the system is fully populated and all error resolutions are processed, schools are being encouraged by the Department of Education to use the system to verify financial aid eligibility. While use of the electronic financial aid transcript has helped by decreasing processing time, the gaps in the database open up the possibility of over-awarding students, or worse, allowing defaulted students to erroneously receive Federal aid.

Institutions have also been required to invest substantial resources, beyond initial expectations, to provide data for NSLDS. Significant problems with data error resolution continue to exist. NSLDS needs to be interfaced with a reliable information source, such as the IRS, in order for it to be fully trustworthy. Also, universities and colleges need to populate NSLDS with all enrolled students to eliminate technical defaults. Currently the National Student Loan Clearinghouse is the only information source for all enrolled students, but since only a limited number of schools participate, this forum is incomplete. NSLDS holds the promise of helping to make student aid delivery more efficient. As the system stands, a number of significant deficiencies remain that must be addressed before this goal will be realized.

Another Federal program that promised to enhance student service and reduce administrative expense was the Federal Direct Student Loan Program (FDSLP). Two of our three University of Illinois campuses are active in the Direct Loan program. Although we had minor problems during the implementation stages of Direct Lending, our first years participating in the program were generally positive. For instance, with Direct Lending we have only had to work with a single point of contact lender. As a consequence, the loan processing and approval process has been simplified. Loan funds are wired to the campus on a next day basis after a request for funds is electronically submitted by the school, and therefore, students receive their funds faster. In addition, we have especially appreciated the competition which has created material improvements in both the Direct Loan and Federal Family Education Loan (FFELP) programs.

As Director of Student Financial Services, I am responsible for the bidding, awarding, and implementation of a number of servicing contracts with external vendors. It is our practice to formulate detailed implementation plans, carry out rigorous systems tests, and run parallel systems in full production for at least 30 days in order to secure a smooth transition to the new system. To my knowledge, the transition of accounts in FDSLP to the new loan originator in February was not accompanied by similar precautionary measures. In point of fact, it is now apparent that many institutions have encountered setbacks in their administration of the Direct Lending program which directly resulted from this transition, including backlogs in loan consolidation and reconciliations.

Far too many resources have been invested in the Direct Loan program to allow the inefficiencies of the current servicer to jeopardize the significant benefits the program has provided students. With the performance problems currently existing in the loan origination process, we are either in need of immediate procedural improvements with the current servicer, or we need to convert back to the original contractor until the problems can be resolved.

Administrative efficiency and simplicity from the Federal level is needed to bolster the progress and effectiveness many schools are achieving with regard to the delivery of student services on their campuses. This worthy goal will require a commitment to effective organizational structure, advanced financial systems, and tight

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contract administration. In the last six months, I have reviewed a number of interesting proposals that warrant further discussion. Among them are the following:

1) Numerous higher education groups have proposed that the Free Application for Federal Student Aid (FAFSA) be available on the World Wide Web, equipped with the allowance for an electronic signature. This promising proposal would require the creation of a master application that would fully standardize the application process. It also would significantly improve the application process for both students and universities while making full use of available technologies for streamlining existing systems and procedures.

2) An Advisory Committee proposal worth consideration is the implementation of a performance-based organization to handle (with full personnel and contractual authority) Title IV systems and contracts. While this proposal maintains that the management of Title IV aid should remain within the Department of Education, the operations side of the management would be handed over to a nonpolitical chief executive officer.

3) The American Council on Education (ACE) has a proposal that addresses similar concerns. ACE recognizes that inefficiencies in Federal aid are not due to lack of dedication or professionalism on behalf of the Department of Education. Rather, they realize that inefficiencies are primarily attributable to the fact that no Federal agency possesses the practices that competition has forced the private-sector to develop and utilize. Their recommendation, therefore, is that Congress examine the possibility of revamping the delivery system to take advantage of the best private-sector services available.

Overall, these proposals would make excellent improvements to the present systems, and I am not hesitant to recommend them. Yet, what needs to be accomplished in the processing of Federal aid is more fundamental. It relates specifically to taking a student-focused approach to policy-making as opposed to government-focused, commercial organization-focused, and yes, even institution-focused approaches. The pursuit of this goal should lead to the kind of responsiveness at the Federal level that institutions are now beginning to seek in the delivery of student aid.

I appreciate having the opportunity to testify before you today on these important matters. I will be pleased to address any questions you may have.

The CHAIRMAN. Mr. Nassirian.

Mr. NASSIRIAN. Thank you very much, Mr. Chairman.

My name is Barmak Nassirian. I am the director of policy analysis at the American Association of State Colleges and Universities. My association represents about 400 public 4-year institutions across the Nation.

At the great trepidation no doubt of my employer, I shall depart from my prepared text and attempt to ad lib this one.

I guess I will start by associating myself with your opening comments. I think they essentially capture the fundamental problem we confront as we look at delivery functions. We are looking at what is now, by every measure, if you just look at the loan volume that is in the Department's hands, the second-largest student loan operation in the United States. If you look at the totality of the volume of aid that is in one way or another channeled to the Department, it is clearly a giant financial and data services corporation. And as Dr. Longanecker pointed out, once you add the $100 billion of outstanding loan that is being serviced, you are looking at the very pinnacle of complexity and technology.

Having associated myself with that observation, I can also very much associate myself with Dr. Longanecker's presentation. I think this administration's achievements and commitment have been well-demonstrated; I credit them across-the-board. I credit them for what they are recommending. I credit them for what they have done with regard to improvements that have in fact been made since the opening of their tenure at the Department, and I do this under no duress. I really believe that things are much better today than they used to be.

I guess I will sort of veer off the main course here and, at the risk of having to enter the witness protection program, also give a ringing defense of direct lending. Direct lending was a good idea. Direct lending is a good idea. I completely associate myself with the program. I think I am still bleeding from the wounds of the battles over loans, and I do not think that the topic that all of us are here to address has anything to do with direct lending with regard to policy.

The direct lending policy issues ought to be settled in reauthorization, and I know that this committee under your leadership will in fact look at some of those policy issues. I will throw in my 2 cents that I actually endorse the fact that defaulted borrowers ought to be allowed to consolidate into income-contingent repayment. We as a nation set a set of rules as to what people can afford to pay, and we ought to be satisfied with the answer that we ourselves set them up for. If they cannot afford to pay anything because they are so poor, we should not artificially keep them out and subject them to the harshness of default. But that is a digression.

To go back to the main topic of this hearing, I guess I sort of start with a modest proposal. These programs in many ways suffer a certain duality. Policymakers in Washington and those of us who are inside the Beltway, when we think of the American Government, we think in program design and configuration terms. We think of Pell grant dollars, higher education policy, student aid policy, and all of that. But in fact to the citizenry out there, these programs are the delivery mechanism. You ask what is Government. Government is the FAFSA. What is Government? Government is the daily frustration of running a student aid operation.

The fact is that the substantive difficulties that this committee faces on a daily basis with regard to what to do in terms of better targeting, in terms of what the range of possibilities may be, are obscured by the delivery mechanism that actually channels the results of the achievements of what happens inside the Beltway, get channeled to the citizens through this delivery mechanism.

The modest proposal that I would like to submit to everybody's attention is that we have a delivery system that is in very significant ways and through no fault of any particular group of people currently sitting somewhere—at best, a 1970's operation.

One of the things we could do—in fact, as I reread my own testimony, I noticed that there is a fourth option in terms of what to do with the delivery system—we could hand it to the Smithsonian and have them maintain it as sort of a "live site" in terms of how things used to be. It is awe-inspiring to look at.

Short of that, I want to encourage the multiplicity of ways in which one can attempt to improve things. I happen to be on the steering committee of Project EASI. I dare say that I am a dissident member of that steering committee. But I believe that it is the most open consultative process the Department of Education has ever set up to discuss delivery, and I think Project EASI, in terms of providing a means of diagnosis, has been a stunning success.

I do not mind sharing in all candor my own personal view that it is not likely of overwhelming success. It is subject to the con-

straints that Government functions tend to be limited with, so that is one option, and we should keep going on that track. To whatever extent Project EASI improves systems around the margin, that is a good thing, and we ought to be supportive.

In addition, I think the performance-based organization idea that the Advisory Committee just recommended to this committee is one that is very intriguing and ought to be looked at, and I certainly hope the committee examines that option.

The higher education associations envisioned another possibility that we do not necessarily articulate in our submission to the Hill but is very much the backdrop to the recommendations that I have attached to the written testimony, and that is the possibility of—I kind of hesitate to call it "privatization"—but of defederalizing those components of student aid delivery that are entirely technical.

I will stop there to earn at least a silver start and look forward to responding to any questions.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Nassirian follows:]

PREPARED STATEMENT OF BARMAK NASSIRIAN

Introduction

Mr. Chairman, my name is Barmak Nassirian, and I am Director of Policy Analysis at the American Association of State Colleges and Universities (AASCU). AASCU represents more than 400 campuses and systems of higher education throughout the United States. Annually, AASCU institutions enroll more than 3 million students and award one-third of all baccalaureates conferred in the United States. I thank you for the opportunity to testify before the Committee as it continues its deliberations regarding the reauthorization of the Higher Education Act.

Background

The delivery system for Federal student aid is in some ways an unusual topic for a congressional hearing. Prompt, efficient, reliable, and accountable delivery of Federal student aid funds is a complex, but fundamentally mechanical task. Congress has generally operated on the belief that upon its creation, configuration, and funding of student aid programs, it could assume proper delivery of aid dollars by providing sufficient funding for that purpose. Acting on the basis of this assumption, this Committee has tended not to be prescriptive regarding the topic of delivery. It has delegated most matters related to delivery of aid to the Department of Education, and has limited its own involvement to setting funding levels and to periodic oversight.

The Department, in its turn, has attempted to conscientiously carry out the delivery functions it has been assigned. As new programs were authorized, corresponding delivery processes were created for their implementation. These processes were often designed under tight deadlines, and were almost invariably stand-alone, "stovepipe" processes that were not integrated with delivery processes for other programs. This approach, though inefficient, worked well enough when student aid programs were first created. Initially, the modest size and simple legislative design of programs rendered delivery of funds a generally straightforward and manageable task. In addition, this manner of program implementation was by no means unique to the Department or even the Federal Government. In the era when mainframe computers were the only means of automating labor-intensive manual processes, stovepipe systems represented the mainstream of system design. The vast majority of large companies in the country tended to design their various systems in much the same ways as the Department designed student aid delivery.

As with all business processes, however, as aid programs grew larger, and as their parameters became more complex, function-specific computer applications began to spin out of control. Systems designed to track institutional participation, student eligibility, disbursement, accounting, and financial record keeping for each of the several aid programs proliferated and grew more and more complex. Because these computer applications were computerized versions of manual processes, little or no system integration was attempted in their design. This, in turn, resulted in an over-

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all federal student aid delivery "system" replete with data redundancy, cost, complexity, and inefficiency for all parties involved. Because files with redundant and nonstandard data were not-and could not be-linked, even innocuous changes could spin out of control, causing errors, delays, and enormous maintenance costs. Student aid delivery gradually grew into a labyrinthine system that could hardly be fathomed, let alone navigated, maintained, or managed easily. The Department, in short, faced the same problem that virtually all of America's large data-intensive enterprises faced by the late 1970s: the problem of legacy computer systems.

Other users and owners of large legacy systems took advantage of the rapid advances in computer technology throughout the 1980s to move toward structured, integrated data automation systems. In addition, the pressures of market competition forced many industries to develop and utilize new management techniques such as business process re-engineering, which allowed for comprehensive rationalization of underlying organizational functions. In contrast, after a promising start in the early 1980s, the Department—like many other Federal agencies—failed to plan an orderly migration path away from its fragmented stovepipe systems. Compounding this failure to keep up with technology, and partially as its consequence, the Department also insulated its underlying processes from most of the advances in new management techniques that are now commonplace in large financial and data services companies.

The causes of these dual failures are complicated and numerous. There are important and obvious structural factors that merit the Committee's attention. First, Federal student aid has grown from a modest affair to a prodigiously large volume. Federal aid dollars—including the Federal student loan programs—now exceed $50 billion. By the standard of sheer size, the Department's delivery system is in fact a massive financial and data services enterprise.

Second, because the programs are legislatively created, they tend not to respond to market forces in the same manner or at the same rate of speed as market-based private sector initiatives. This fundamental characteristic currently pervades all aspects of Federal aid programs. Unfortunately, even the more mechanical functions associated with delivery, which would otherwise be most susceptible to private-sector best practices, are not immune from this phenomenon. Federal procurement requirements, for example, while certainly designed to ensure integrity in Federal contracting, do cause substantial inefficiencies that at times seem to dwarf any benefits the public may derive from their mandates.

Third, the Department of Education, like other Federal agencies, is at a great disadvantage vis-a-vis the private sector on matters related to staffing. The career civil servants at the Department are extraordinarily talented and dedicated employees, qualities that make them especially sought after by private companies that can often compensate them at substantially higher salaries than that which the Federal Government may be able to offer. In addition, high-level management of the delivery system, despite the succession of very highly qualified political appointees-many of them with extensive private-sector experience-suffers the inevitable temporality of the political process. The crucial importance of continuity of sound management can best be demonstrated in the advances the Department has made under Secretary Riley, whose excellent leadership, combined with the stability his tenure has brought to the agency, have substantially improved the Department's prospects. One of the most important benefits that have accrued to the community as a direct result of the Secretary's tenure will certainly prove to be his creation of Project EASI: Easy Access for Students and Institutions. Project EASI represents the most important initiative ever undertaken by the Department of Education to redesign the entire delivery system and its processes, and Secretary Riley deserves enormous credit for his leadership on this critical initiative.

The Current Delivery System

This brief background and summary analysis is intended to set the current delivery system in context. The system as it presently exists is in fact a series of marginally integrated stovepipe applications associated with the various aid programs created by this Committee. These applications together constitute the Federal delivery system as it is presently run and managed by the Department through contracts. To better inform the Committee of the specific features of these contracts, a copy of the Project EASI Draft Concept Document's description of delivery contracts is enclosed for the Committee's review.

For students, institutions, and other participants in Federal student aid programs, the delivery system they interact with depends on their respective roles. The delivery system as students see it begins with the Free Application for Federal Student Aid (FAFSA), and ends with the delivery of funds to student accounts. For borrowers in the Federal Family Educational Loan Programs (FFELP), the separate FFEL application is another point of entry into the delivery system. For those in

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the direct loan program, the delivery system may arguably be extended to include one of the four servicers involved in direct loan servicing. There is also an "after market" to delivery, consisting of FFEL and direct loan consolidation programs. In the case of schools, lenders, guarantors, and servicers, which run part of the "back office" functions associated with Federal delivery, the delivery system is even broader and substantially more complex. For the Department itself, the system extends into departmental accounting systems that include Primary Accounting System, Payment Management System, Central Registry System, and ED Central Facility.

The delivery system as it currently exists suffers several crucial, related flaws. Structural, and rather radical, changes are needed to address these shortcomings.

1. The delivery system, because of a variety of policy and implementation choices made over time, is unable to provide reliable, real-time information about vital aspects of the programs it serves. Seemingly simple data, such as the volume of guaranteed student loans, the volume of student loans in delinquency or default, the dollar amount of Pell properly disbursed to students, or actual aid eligibility of students, are generally unavailable within the current system on a reliable, mission-critical, and real-time basis. Contrast this system with the current state of banking services most of us take for granted. Banks and credit unions routinely provide customers with Automated Teller Machine (ATM) cards, which customers can use at virtually any other ATM at their convenience. ATM transactions are real-time, mission-critical, and customer-friendly, and the number of transactions over the several ATM networks on a daily basis dwarfs the number of applications the Department processes on an annual basis. This basic lack of functionality has consequences that permeate throughout the entire postsecondary system, including the large segments of it that are entirely non-federal. However, the interests of the Federal Government—the architect and the owner of this lackluster system-are not well served by such a system either.

2. The system is inordinately expensive, and its costs are escalating at an alarming rate.

3. Because it is not integrated, the delivery system imposes great inconvenience on all users and participants, including the Department of Education. The near absence of integration means students, schools, and other participants must repeatedly provide the same information to various systems. Not only are such redundant data collections a source of aggravation and cost for other participants, they also render the system more prone to additional propagation of error. The redundancy adds to maintenance costs, causes substantially higher data warehousing expenses, reduces the functionality of the system, and increases the likelihood of fraud, waste, and abuse.

4. The system is almost entirely oblivious to such commonplace technological advances as Personal Identification Numbers (PIN), true, web-based applications, touch-tone services, and standardized electronic data interchange. While the Department's delivery system management has clearly committed itself to embracing these and other improvements, little by way of concrete products can be held up as of today.

5. The dysfunction of the Federal delivery system, which in many ways is a time capsule of what financial services were like in the 1970S, ripples throughout the postsecondary system, and imposes a variety of indirect costs on other participants. Federal delivery, in short, has now become a roadblock to, instead of a vital instrument of, providing access to postsecondary education. The complexities of the FAFSA, the irregularities of its current system of processing and the time delays involved, and the lack of ready integration of Federal data into non-federal systems are problems that afflict virtually every participant. The most obvious illustration of such problems is the consequential effect of Federal delivery on non-federal providers of aid, such as States and institutions. Other examples demonstrate the reach of the problems that start in student aid, but effect other facets of institutional management. For example, while the Department has failed to place an interactive FAFSA on the World Wide Web, many institutions have attempted to simplify their admissions processes by placing admissions applications on the Web. Because of the Department's choices regarding the provision of data for populating the FAFSA, however, schools have been unable to provide crucial aid information applicants need in order to make their educational choices. Many institutions now rely on multifunctional "smart cards" that serve as student identification, ATM, food service, library, copy service, and long-distance telephone cards all in one. The one arena such cards cannot function in today is student aid.

Modernization of Student Aid Delivery

On March 19, 1997, AASCU joined the American Council on Education (ACE) and 22 other associations in submitting a comprehensive set of proposals for the reauthorization of the Higher Education Act. Modernization of student aid delivery was

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one of the important topics addressed in the associations' proposed package, the relevant portions of which are enclosed for the Committee's review. The associations' proposal focuses on the need for modernization, and proposes a variety of functional models for the target system. It does not address the various ways through which such a modernization effort may be effected. At least three possible options may be examined.

The first option is the path currently taken by the Department's important delivery system reengineering effort, Project EASI, to which I alluded earlier. Despite having some hope for this project, on the Steering Committee of which I serve on behalf of AASCU, I would not rate its chances of comprehensive success as particularly high. Project EASI, after it was terminated as a stand-alone initiative and was brought into the regular structure of the Office of Postsecondary Education's Student Financial Aid unit, was essentially transformed into a Department of Education system development effort. It is by every standard a more serious and more open, consultative development effort than the Department has ever undertaken, and I credit the leadership of the Department for this. As an internal initiative, however, Project EASI does suffer the disadvantages inherent to any governmental entity's automation effort. I have attached for the Committee's review an editorial from the Washington Post that addresses some of these difficulties.

Second, there is the possibility of creating a "Performance-Based Organization" along the lines proposed by the National Performance Review under Vice President Gore's leadership. This is an intriguing idea, whose application to student aid delivery has been proposed by the Advisory Committee on Student Financial Assistance. The chief virtue of this option would consist of professional management expertise, relief from cumbersome Federal procurement rules, and some private sector flexibility within the framework of a fully public entity. AASCU is interested in learning more about this option, and we are ready to work with this Committee and other colleagues to examine this option carefully.

Third, there is the option of outright privatization of the mechanical delivery functions through the creation of a Mutual Benefit Corporation (MBC). This arrangement would be similar to what the banking industry has done in its configuration of ATM networks and the MasterCard and Visa credit cards. An example of a Mutual Benefit Corporation that performs otherwise public functions is the Securities Industry Automation Corporation. It performs functions involved in the exchange of securities, and serves to fulfill the mission of the Securities and Exchange Act. An example of a Mutual Benefit Corporation within the postsecondary community also exists in the form of the Educational Loan Management Resources, Inc., an alliance of FFELP lenders committed to an open, common delivery channel in FFEL. A Mutual Benefit Corporation could be chartered in the Higher Education Act for purposes of managing the delivery functions currently delegated to the Department of Education. A board of directors with broad representation from across the postsecondary community, including the Department, could govern such an entity. All policy, oversight, and enforcement powers would continue to reside at the Department, but the Mutual Benefit Corporation could perform the more procedural delivery functions. This approach is admittedly the most radical way to modernize aid delivery, and may have the highest chance of success for precisely that reason. It is, however, subject to a variety of accountability and performance standards, which should be carefully examined through the reauthorization process on which the Committee is already embarked.

Mr. Chairman, I once again thank you for this opportunity and look forward to working with the Committee throughout the upcoming reauthorization process.

ATTACHMENT 1

- **Campus-Based Programs System** - supports processing for the Campus Based Programs FISAP cycle, which primarily involves uploading FISAP data received from the participating schools, editing the data, calculating tentative and final institutional awards, notifying institutions of their award levels, allocating funds, and reconciling institutional accounts. The Campus-Based Programs system contains no student-level information; it uses only summary data by school. The Campus-Based Programs system is primarily a standalone mainframe system, but it is supplemented with 16 microcomputer-based programs that are used primarily to track key program indicators and suspense dates.

- **CPS** - is used to confirm applicants' eligibility for Federal student financial assistance; to calculate the EFC; to calculate eligibility for Federal aid (i.e., determine financial need); to report eligibility information to applicants, schools, and guarantors; and to support management information and analysis requirements of other ED managers and staff. CPS works hand in hand with EDExpress, a microcomputer-based software package distributed by ED to schools to support aid packaging, Federal Pell Grant and Federal Direct Loan origination, SSCR, and drawdown of data from CPS for use in other school applications.

- **Direct Loan Central Database** - is the central repository for summary-level data on FDLP loans, including aggregated financial data reported from the FDLP servicer(s). The Central Database receives loan records from the Direct Loan Origination Record when loans are booked and tracks which servicer is responsible for each loan.

- **Direct Loan Origination System** - supports FDLP loan origination, is used to book loans, supports reconciliation with schools, and receives disbursement information from schools as each loan is disbursed to a recipient. The Direct Loan Origination System is the schools' single point of interface with the FDLP information systems.

- **Direct Loan Servicing Systems** - are used to service FDLP loans while the borrower is in school, in deferment status, or in repayment. There is currently one Direct Loan Servicing System, but contracts were recently awarded for three more servicers who are currently developing their systems.

- **FFELP System** - is used to pay interest and special allowances to lenders and to pay ACA to guarantors. The FFELP System, Debt Collection Subsystem, is used to support ED collection of defaulted loans from all Title IV loan programs and to collect Federal Pell Grant overpayments. Defaulted FDLP loans are assigned to this system as soon as they are considered in default; other loans are assigned to ED for collection only after the loan holder(s) have exhausted their own efforts to return the loan to repayment status.

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- **IDS** - is used to track lender and guarantor participation in the Title IV programs. This system was previously used to track institutional participation, to support activities by program reviewers, and to support the annual default rate calculations for the FFELP. IDS is currently being replaced by PEPS.

- **MDE Contractor Systems** - receive paper FAFSAs from applicants, optically scan or key enter the FAFSAs into an information system, and submit the data electronically to CPS. MDEs also collect signature sheets from applicants who submit FAFSAs to ED electronically, and apprise CPS of receipt of signatures so that CPS can process the electronic FAFSA.

- **NSLDS** - is a national database of loan/grant-level data on the Title IV programs. The system tracks data on the FFELP, FDLP, Campus-Based Programs loans and grants, Federal Pell Grants, and on Federally Insured Student Loans. NSLDS is intended to provide a research database and also to support operational functions that include prescreening Title IV aid applicants for eligibility, SSCR tracking and reporting, provision of FAT information to schools, supporting reasonability tests on lender and guarantor billings to ED, performing borrower tracking, and supporting Credit Reform Act reporting.

- **PGR/FMS** - supports delivery of aid under the Federal Pell Grant program. PGR/FMS tracks at the grant level all Federal Pell Grants awarded each year, tracks planned and actual disbursements, supports reconciliation, calculates eligibility amounts, aggregates planned Federal Pell Grant disbursements by school and submits this information to ED's accounting systems to authorize draw down of funds.

- **PEPS** - currently maintains data on school participation (e.g., eligibility, certification, address, program participation) in Title IV programs, supports institutional reviewers and related activities, acts as the official source of information regarding schools and their associated school codes for all ED systems, and supports the annual default rate calculation process for FFELP and FDLP. This system has partially replaced IDS; additional increments of functionality in development or planned for development will enable PEPS to totally replace IDS.

- **TIV WAN** - is a value-added network provided by General Electric Information Services (GEIS). The TIV WAN functions as a participant management system through which users indicate which services they want to use from the systems that the TIV WAN supports (i.e., CPS, NSLDS, PGR/FMS, Direct Loan Origination System, and FFELP System (soon)).

- **PAS, PMS, CRS** - are used to provide Department-level accounting for the Title IV programs and support disbursement of Title IV funds to schools for the FDLP, Campus-Based Programs, and the Federal Pell Grant Program. Under the EDCAPS program, these systems -- along with ED's grant management system -- are being replaced with an integrated financial system using more current technology.

- **ED Central Facility** - is a contractor-owned and operated mainframe data center that is used to run various ED information systems. Currently, PGR/FMS, the mainframe portion of the Campus-Based Programs System, and IDS run on the ED Central Facility.

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ATTACHMENT 2

Recommendations for Reauthorization of the Higher Education Act

Submitted by:

American Council on Education
American Association of Colleges for Teacher Education
American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
Association of American Universities
Association of Catholic Colleges and Universities
Association of Governing Boards of Universities and Colleges
Association of Jesuit Colleges and Universities
Coalition of Higher Education Assistance Organizations
Council for Advancement and Support of Education
Council of Graduate Schools
Council of Independent Colleges
National Association for College Admission Counseling
National Association for Equal Opportunity in Higher Education
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Association of State Universities and Land-Grant Colleges
National Collegiate Athletic Association
National Council of Educational Opportunity Associations
The College Fund/UNCF
University Continuing Education Association

March 19, 1997

8) **Enhance accountability through modernization of student aid processing.** The management of student aid programs by the federal government is extraordinarily complex and confusing. To some extent, this is not surprising; the management of any large-scale financial services program always is challenging.

The problems with the processing of federal student aid are not, we hasten to add, with the Department of Education's career civil servants. To the contrary, the agency's staff is hard working and dedicated. Nor is the issue the Department's political leadership: it is difficult to imagine better and more knowledgeable political appointees than the agency currently enjoys. Rather, the problem is that no federal agency has the state of the art private-sector practices that would enable them to manage the effective delivery of a $50 billion financial services program.

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The processing of student aid by the federal government has not changed qualitatively since the Higher Education Act was passed in 1965. Over that same time period, however, the financial services industry has been revolutionized. We believe Congress should examine seriously the possibility of fundamentally restructuring the routine processing of federal student aid to take advantage of the best private-sector practices that have improved the level and quality of financial services available to individuals. This would enable the Department of Education to concentrate on its primary responsibilities.

Complexities of student aid processing -- The processing of federal student aid suffers from four serious flaws. First, policy makers and institutional officials lack critical information that is necessary for making effective decisions. For example, the Department of Education has no real-time data on such basic matters as student loan volume or student loan delinquencies and defaults. Moreover, in spite of more than 10 years of statutory authorization, the National Student Loan Data System (NSLDS) still has not reached the point of being able to deliver reliable student aid tracking in lieu of financial aid transcripts, and it is unlikely that it will do so in the near future.

Second, the cost of administering the current system is high and increasing. To continue the NSLDS example, the effort to achieve an operational data system is now $50 million over budget. Because its completion date is uncertain, it cannot be known what its final price tag will be. Some have estimated that contracting costs alone to administer the student aid programs currently exceed $400 million.

Third, despite improvements such as the advent of direct lending, the delivery of federal student aid is not characterized by customer friendly service. Almost 20 percent of FAFSA applications are rejected because applicants did not complete them properly. Nor is technology used to enhance customer service: consider, for example, the Department of Education's unwillingness to put FAFSA on the World Wide Web.

Fourth, the indirect costs imposed on institutions by the current processing system are inordinately and unnecessarily high. The 1995 FAFSA processing delay illustrates the extent to which service problems can have a serious effect on students and institutions of higher education. The list of reports and data that must be provided by schools to help oversee the administration of student aid grows ever longer. Over the last 20 years, many campus employees have been turned into *de facto* federal agents to ensure that the Title IV programs are well managed.

Advantages of modernizing student aid delivery -- Congress should consider fundamental changes in the way federal student aid is delivered. An appropriate model is the efficient, cost-effective, consumer-oriented system

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available through Visa and MasterCard, where a single financial servicing business works with thousands of lenders, hundreds of thousands of vendors, and millions of customers. Tens of millions of transactions a day are monitored and approved within seconds; real-time data is available to lenders, vendors, and customers; and a wide variety of repayment options are available. Customer inquiries are handled efficiently and effectively. Because accurate and timely data are provided to lenders and vendors, fraud is not a significant problem.

Such a system would improve the Department's gatekeeping functions, but it would not, and should not, supplant the role currently played by states, the federal government, and accreditors. But the development of a real-time, integrated data system would allow the federal government to complement the lagging indicators (such as default rates) currently used to identify problems, and would permit much faster response when problems are identified.

A change such as we propose would enable the Department of Education to concentrate its attention on the roles that only federal officials can play. The crucial gatekeeping functions, oversight and evaluation of current programs, and policy development, implementation, and regulation all could receive more thorough attention if the routine processing of large amounts of financial aid information were modernized.

This approach could have significant benefits for students and schools. Modernizing the current system would allow campus officials to spend less time processing and tracking federal forms and more time counseling students and families. For students and families, the system could provide more and better information, and provide it far more quickly than currently is possible.

Such a system is not biased in favor of a particular source of loan capital; a high-quality private-sector servicing operation would work as effectively with the direct loan program as it would with private-sector lenders.

This proposal is a bold step, and we have not analyzed all of the issues involved. However, the amount of federal student aid made available and the number of beneficiaries increase every year. Moreover, the possibility that the federal government may establish a new tax credit and deduction to help families finance higher education means that, if anything, the current system will grow even more complex in the years ahead. For these reasons, the impending reauthorization is the ideal time to investigate the feasibility and desirability of major changes to the current system of processing federal student aid.

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WASHINGTON POST - MARCH 14, 1997 ATTACHMENT 3

When Government Buys Computers

THE INTERNAL Revenue Service's attempt to modernize and computerize its vast operation is now being described as a $4 billion fiasco. If so, it is a fiasco with echoes of many previous ones. From the Federal Aviation Administration to the National Weather Service, the struggle of the federal government toward computerization has been fraught with disaster. When you consider the scale and urgency of the tasks that federal departments are buying these computers to do—landing airplanes safely, calculating people's benefits and processing their tax returns—such a record becomes cause for more than just fiscal concern.

The General Accounting Office, which in 1982 classified the government's information technology modernization efforts as one of a handful of "high-risk" areas most prone to waste and trouble, has been issuing increasingly sharp reports since then about four big projects it flags as signal failures. Besides the IRS mess, GAO includes the FAA's air-traffic-control modernization, the National Weather Service modernization (both started 15 years ago) and the Pentagon's 1989 "corporate information management" initiative, which was supposed to streamline vast amounts of sensitive information in a sprawling worldwide operation that obviously could benefit greatly from such help. The GAO figures as of last month that the four together are responsible for $146 billion in outlays over the past six years, with only "meager" returns in cost savings or improved services.

Some of the weaknesses the GAO identified in 1982 are traceable to bad management or bad appointees; others flow naturally from the differences between government and private industry, and GAO recommendations and congressional reforms passed in the interim reflect the difficulty of bridging that difference. A 1995 update of the infamous Paperwork Reduction Act and a 1996 law called Clinger-Cohen both sought to compel departments to act more like corporations in this field. Chief information officers were to be of high rank and report directly to the agency head, as to a CEO. Systems acquisition was to be treated as an investment in which risk and profit are balanced and frequently reviewed. Better long-term planning and "systems architecture" were called for in light of amazing snarls (the FAA initiative was found at one point to have employed 53 different programming languages).

All this prodding has led to some progress, but it doesn't take a management guru to see that in the average government department—even a reasonably well-run one—the pressures are to do just the opposite. Top management is politically appointed and short-term, while computer experts tend to be career folks. Salaries aren't competitive. Long-term plans and accurate measures of service are constantly changing. But as the problems persist, their urgency mounts. Just for good measure, the GAO notes two looming crises that make waste and cost overruns seem frivolous by contrast: the "Year 2000" problem that could scramble nearly all government calculations, from budgets to benefits, at the century's turn, and the broad problem of information security. If nothing else induces adrenaline and culture change in government computer procurement, these two approaching tidal waves might.

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The CHAIRMAN. Ms. Tornow.

Ms. TORNOW. Thank you, Mr. Chairman.

I am Barbara Tornow, the executive director of financial assistance at Boston University. I am also a member of Sallie Mae's Advisory Committee and served for 12 years on the board of directors of American Student Assistance, which is the Massachusetts guarantor. I have also worked on Project EASI.

I would like to provide a financial aid administrator and student perspective on the delivery system. At Boston University, I am responsible for processing over $250 million in total aid to undergraduate, graduate and professional students. Federal funds account for approximately half of this amount, with $110 million in Federal loans. Processing of this aid on an accurate and timely basis is critically important to students and the university, but a continuing challenge to me and my staff because of the numerous outmoded and inefficient delivery systems which are not integrated.

A modern, student-centered integrated delivery system is critically needed to ensure access to higher education for student.

Of primary importance to Boston University, given the number of students and dollars involved, has been the loan delivery system. For 9 years at Boston University and 14 years at other institutions, I and my students encountered innumerable difficulties and frustrations in getting loans processed under the guarantee agency system. This was in large measure due to the inefficient systems and unresponsive attitudes of guarantee agencies and banks.

The Massachusetts guarantor did make efforts to be responsive, but it had other corporate objectives, and they did not adequately invest in systems in an appropriate time, and when they did begin, they had many problems.

A further problem for me was the need to deal with 40 other guarantee agencies and hundreds of banks of varying degrees of competence and interest in service—at least, until the advent of direct lending.

In dealing with the system before direct lending, resolution of problems encountered by students was rarely easy. Timely receipt of funds was a major problem. Many banks and agencies had processing problems or were seeking to maximize their float on student funds. Often, funds were not received until October or later, delaying first semester payments to students.

As a result of our interest in simplifying the process for students and improving cash flow, we decided to join the direct lending program. We also wanted to take advantage of the technological advances offered. Implementation of direct lending was not easy, although the servicer and Department of Education were far more helpful than most guarantors had been. Almost from the beginning, we recognized significant improvement in service to students.

Administration of loans has become easier and more efficient. There have been problems when servicers were changed, and the Department does need to improve its contracting process. However, there are always problems with major systems transitions, and the Department of Education staff have worked hard to resolve problems as quickly as possible.

I am concerned that direct lending remain a viable option for schools which have invested in its implementation and find it a superior delivery system for their students. However, FFELP participants are currently offering better financial terms. This may force schools to abandon direct lending, and then FFELP will no longer have an incentive to continue to improve services and benefits.

I am also uncomfortable that the financial terms of the Federal program are different for students based on where they live or what school they attend. The loan system in general continues to need more investment.

Unfortunately, the loan system is only one of a number of complex, sophisticated systems which the university must implement each year in order to deliver funds to our students in compliance with regulations. At present, the Department of Education operates numerous stovepipe systems which do not communicate with each other. This places an incredible burden on schools to maintain multiple systems with redundant information.

Each of these stand-alone systems requires a great deal of staff time to implement and test, which delays the delivery of funds to students. Therefore, I was pleased to be asked to participate in the Department's efforts to develop the EASI model. EASI would provide state-of-the-art technology and single integrated system for all financial aid programs, which would greatly simplify the process for students.

I participate in several EASI focus groups last fall and am now a member of the Target System Model Review Team which is finalizing the functional requirements of the system. I am impressed with the substantial progress since fall. Significant resources have been committed to this project by the Department of Education, and many knowledgeable and committed staff are involved.

Equally important to the success of EASI has been the Department's involvement of the major players in the financial aid delivery system. The continuation of broad-based community involvement is essential to the success of EASI. With this, I believe EASI has substantial promise for the future and that it can dramatically transform the administration of all financial aid to the benefits of students.

The work to date of the Department on EASI, the success of direct lending and their recent efforts to reform the management of contracts has given me considerable confidence in their ability to manage sophisticated systems and provide the necessary customer service. My experience with guarantee agencies makes me concerned that the private sector alone is not a panacea and persuades me that competition is very helpful. We need a strong and modern Department of Education to enable schools to delivery student loans and grants in an easy and efficient way in order to provide access for students to higher education.

I thank you very much for this opportunity to testify. I am grateful for the committee's interest in this matter of great importance to students and institutions as well as taxpayers.

[The prepared statement of Mr. Tornow follows:]

PREPARED STATEMENT OF BARBARA E. TORNOW

Mr. Chairman and members of the committee, I am Barbara Tornow, the Executive Director of Financial Assistance at Boston University. I am responsible for the processing of over $250M in total aid for over 13,000 undergraduate, graduate and professional students each year. Approximately half of the total $250M are Federal funds with nearly $110M in Federal Direct Stafford/Ford and PLUS Loans. Processing of this aid on an accurate and timely basis is critically important to students and the University, but a continuing challenge to me and my staff because of numerous outmoded and inefficient delivery systems which are not integrated.

I am pleased to have the opportunity to appear before the committee today. I would like to speak about the challenges faced by financial aid administrators in processing the financial aid which enables students to participate in higher education opportunities. I hope that these may be addressed by Congress in the Reauthorization of the Higher Education Act.

Of primary importance, given the number of students and dollars involved, has been the Federal student loan delivery system. For 9 years at Boston University and 14 years at other institutions I encountered innumerable difficulties and frustrations in getting student loans processed under the guarantee agency system. This was in large measure due to the inefficient systems and unresponsive attitudes of guarantee agencies and banks.

For 12 of these years, I served as a member of the Board of Directors of American Student Assistance, the Massachusetts guarantor. ASA made efforts to be responsive, but they had other corporate objectives and they did not adequately invest in systems. I also had to deal with over 40 other guarantee agencies and hundreds of banks of varying degrees of competence and interest in service—at least until the advent of Direct Lending.

In dealing with the system before Direct Lending, resolution of problems encountered by students was rarely easy. Timely receipt of funds was a major problem. Many banks and agencies had processing problems or were seeking to maximize their float on student funds. Other funds were not received until October or later, delaying the first semester payments.

As a result of our interest in simplifying the process for students and improving cash low, the university decided to join the Direct Lending program in its second year, 1995–96. we also wanted to take advantage of the technological advances offered. Implementation of Direct Lending was not easy, although the servicer and Department of Education were far more helpful than most guarantors had been. The University invested substantially in developing our system. Almost from the beginning, we recognized significant improvement in service to students.

Administration of the program has been easier and more efficient. There have been problems when servicers were changed, and I do believe that the Department needs to improve its contracting process. However, there are always problems with major system transitions, and Department of Education staff have worked hard to resolve problems as quickly as possible.

I am very concerned that Direct Lending remain a viable option for schools which have invested in its implementation and find it a superior delivery system. However, FFELP participants are currently offering better financial terms. This may force schools to abandon Direct Lending, and FFELP will no longer have the incentive to continue to improve services and benefits. I am also uncomfortable that the financial terms of a Federal program are different for students based on where they live or what school they attend.

The loan system in general continues to need more investment. Unfortunately, Direct Lending is only one of a number of complex, sophisticated systems which the University must implement each year in order to deliver funds to our students in compliance with regulations. At present, the Department of Education operates numerous stovepipe systems which do not communicate with each other. This places an incredible burden on schools to maintain multiple systems with duplicative information.

Each year, we must implement and test different software for various purposes such as receiving student Federal aid application data, reporting Pell Grant awards in order to receive payment, and communicating to the Department. Other software is required to report campus-based award expenditures and apply for funds for future years. Each of these stand-alone systems requires a great deal of staff time.

For this reason, I was pleased to be asked to participate in the Department of Education's efforts to develop the EASI Model, which stands for Easy Access for Students and Institutions. EASI would provide state-of-the-art technology and a single integrated system for all financial aid programs which would greatly simplify the process for students.

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I participated in several EASI focus groups during the fall and am now a member of the Target System Model Review Team which is determining the requirements of the model to insure that it incorporates all the functions of existing systems, as well as new ideas. I am impressed with the work to date which includes substantial recent progress. Significant resources have been committed to this project by the Department of Education, and many knowledgeable and committed staff are involved. Equally important to the success of EASI has been the Department's involvement of the major players in the financial aid delivery system. The continuation of broad-based community involvement is essential to the success of EASI.

The work to date of the Department on EASI, their support for Direct Lending, and their recent efforts to reform their management of contracts have given me considerable confidence in their ability to manage sophisticated systems and provide the necessary customer service. My experience with guarantee agencies makes me concerned that the private sector alone is not a panacea, and that competition is very helpful. We need a strong and modern Department of Education to make Federal student loans an easy and efficient way of providing access to student to higher education.

believe EASI has substantial promise for the future and that it can dramatically transform the administration of all financial aid. I hope Congress will make support of EASI a high priority in Reauthorization.

The CHAIRMAN. Thank you very much, Ms. Tornow, and thank you all for very excellent testimony.

I can understand Mr. Nassirian's comments about the delivery system being the 1970 model, but what I am curious about is how soon or whether we can get to the goals that have been established for the year 2000 to have these systems modernized.

Ms. Blanchette, in the course of your work, have you analyzed the Department of Education's ability to address the year 2000 compliance goals for departmental systems, and could you provide an assessment of the potential impact on the student financial aid systems if these systems were more compliant?

Ms. BLANCHETTE. All right, I will certainly try. We are currently looking at the National Student Loan Data System in particular and looking at it in terms of how it is being used by the education community and also looking at it in terms of how well it operates with the other systems with which it must interact.

I do not think that by the year 2000—the year 2000 is not very far ahead for us—the major technological changes that need to come about will be. I would be hopeful and hope that we will certainly be on the road to some improvement and that there will be more integrated systems than there are today.

One of the concerns, of course, about the year 2000 is the current way the computer systems record dates and the impact that that will have when the year 2000 rolls around, and the last two digits, the "00", appears in data systems, and it is interpreted as 1900 as opposed to the year 2000. We are concerned with how the Department will address and is addressing that issue.

We know from our work that for the FFELP system, for example, that is going to be a problem, and we suspect that it may be for the other systems as well.

The CHAIRMAN. There seems to be a difference of opinion on the progress made in Project EASI. Could Mr. Nassirian and Ms. Tornow comment on these differences?

Mr. NASSIRIAN. Project EASI was a very good start, but I guess I disagree with some of the management decisions that have been made since its inception. To just put it in very plain terms, when you have an organization that has had a couple of decades, with various amounts of funding, either contributed voluntarily or invol-

untarily, under duress by Congress, and you have had successive efforts at system redesign, and every one of them has come up short, I do think that you, at some point, have to sort of throw your hands up in the air and go to somebody else on the basis of the assumption and the very optimistic view of human nature that people are doing the best job they can, and sometimes the best job some people can do because of various institutional limitations may not be good enough.

Project EASI sort of predicated itself on that assumption at the beginning because it was outside of the Department's SFA unit; it was a truly collaborative effort to at leas diagnose the problems and come up with some vision of what ough to be.

What happened in the intervening period was that the project got pulled in-house, and again, this is a matter of management prerogative on the theory that senior managers have to buy into it. What happened there was that a project that was fundamentally driven from the entire breadth of the community suddenly turned into a very earnest, very serious, very well-intentioned system development effort one more time at the Department of Education. And it really depends on your sort of optimism—if you think that people who have attempted something numerous times in the past will "get one for the Gipper" this round, it is possible but unlikely in my opinion.

I really do think that we need to completely revamp the institutional setting in which these systems are designed. And in fact, in preparation for this hearing, I looked at the infamous IRS automation stories that came out, and in fact The New York Times a couple of months ago had a very interesting, lengthy investigative piece as to what went wrong, what management decisions were made way back when that ended up placing us where we are.

To a large extent I would say that we are beginning to see the same set of mistakes being made with regard to EASI. The deputy assistant secretary referred to performance-based contracting. I absolutely disagree that there is any performance-based contracting going on in the Department of Education, for example. Nor do I believe Project EASI, despite their rhetorical commitment to performance-based contracting, is in fact a performance-based contract itself.

The CHAIRMAN. Ms. Tornow.

Ms. TORNOW. I am clearly on thin ice, because I am the most technologically unsophisticated member of the EASI task force. However, I have been impressed by the collaborative approach to this model. The expertise of the people involved is incredibly impressive, and they have used a private-public model. Price-Waterhouse has been the contractor, and what they have done from the user's point of view is truly impressive. And I am very concerned that if it goes totally privatized, that we may lose the input of the community members which I think is so valuable to making sure that it is going to fit and work for all the members who need to use it.

The CHAIRMAN. Mr. Fitzgerald, do you have any comments?

Mr. FITZGERALD. Yes, Senator. I also am at least an observer on the Project EASI steering committee. And in fact, Project EASI is about the fourth round of efforts to restructure ED systems that I

have been involved in since 1982. My first job coming to this town was to work as a contractor for something called "delivery system assessment," which evolved into the integrated student aid model, the ISADs, etc. And we have been rolling through these efforts with minimal effect on systems, at least from my personal involvement, since the early 1980's.

Unfortunately, progress has been painfully slow. We as a committee approached the Department almost 4 years ago to undertake very serious integration beginning with important contracts that were on the verge of being recompeted. We lost those opportunities. We are finally at the point now of getting something concrete from the contractor, Price-Waterhouse, but as Deputy Assistant Secretary Betsy Hicks mentioned before, like the operating systems themselves, which operate in real time, these contracts operate in real time, and the committee's basic concern is that we will end up recompeting the most important student database, NSLDS, the National Student Loan Data System, before the results of EASI, which is to say the architecture, the functional requirements can be incorporated into that contract.

I hope we are wrong, frankly, because we have seen that happen again and again and again. It happened with CPS, the central processing system. In fact, Senator, your former colleague, Senator Kassebaum, wrote the Department a year ago to express concern about NSLDS and whether the recompetition would be used as a way to begin integrating these systems.

I think the other manner in which we are running out of time is that inevitably, the players involved, both on the administration side and perhaps also on the congressional side, at some point will change. I have seen interest in this issue wax and wane over the course of the last 15 years, and I think the real risk is that if we do not get it right this time, we will go into the next period of disinterest. We are at a point where the programs could seriously be jeopardized in terms of their performance. If we cannot rely on the delivery system, the programs will not work, and they will lose the very broad support that they have enjoyed for decades.

The CHAIRMAN. Ms. Flink, maybe you can explain what that last sentence means—what does it mean on the campus when you have a system that fails?

Ms. FLINK. Just putting it into the context of NSLDS, it means submitting information time and time again; it means having the format changed on us time and time again, which drives up our cost. On the other hand, it causes us difficulties with making awards to students when we either have duplicate information or insufficient information.

With NSLDS, time and time again, we ask the question, since we are a health professions institution—we are not putting everything in here; we need the health professions information—and that was stalled. There was also the issue of technical defaults. If you do not put all enrolled students in there from across the country, you are not solving the problem.

So that what it means to an institution is that we are using a system that really is not addressing or doing for us what it is supposed to do, and it compromises our position. And I would hope that more dialogue between the community and the Department

goes on to ensure that we are trying to provide good students service and that that is at the forefront—not trying to automate a paper-based process, but more how can we do it better and more efficiently, not just looking at the paper-based process and seeing how we can automate it.

Mr. NASSIRIAN. Senator, if I may——

The CHAIRMAN. Yes, certainly. Anyone can interrupt at any time and get involved here. Please go ahead.

Mr. NASSIRIAN [continuing]. I almost fell out of my chair when the assistant secretary designed NSLDS as "much maligned," one, and that it actually has improved the lives of aid directors.

With your permission, this is from the Internet. It is a public list accessible to anybody. I will not identify the people who sent it, but I will just read selected bits and pieces here.

"Subject, NSLDS Submission, Text Files. Having trouble getting NSLDS to read my SSCR roster. When they look at my file, they quote' C.' between data elements," and then proceeds to explain there are no periods between data elements.

"NSLDS, Still I need to share my frustration with you and hope someone out there can be of some help. I have contacted NSLDS for Federal aid, etc, and no one seems to have the answer to my woes. At the risk of repeating myself, the problem is that I am not on line with NSLDS but can only see on banner what is on the SAR, which is a loan history of only six loans. This is not adequate for graduate operations."

"NSLDS, SSCR duplicates. There are records for students to have any records that they are not getting back without the corrections they transmitted earlier."

"NSLDS, SSN/Name/DOB match problem."

"FFELP and NSLDS, Question Number 2: If the NSLDS match on SSCR reads' No history' but the student reports that they have attended another school, do we need to collect the FAT?" which is the paper process that NSLDS was supposed to have replaced in the first place.

And this is the reply to the lady who was not on line and could only see six lines of history: "I would like some opinion on the user-friendliness of the on line access, the new and improved version, to NSLDS. Several times recently, when our financial aid staff have called to get borrower history, they have been told to go on line. Each student history took an average of 15 minutes for the system to return to us; so four kids took an hour to straighten out."

And this one, I will not bother with because it is too long, but it is called "NSLDS, SSCR woes. NSLDS lamentations, chapter and verse"—and this is the question I guess I will pose to the committee—"somebody tell me again why I am supposed to be happy that we replaced financial aid transcripts, the paper process, with the big computer in the sky. We have traded an activity we could formerly delegate to the part-time clerk for one which requires our counselors and our—wink, wink—$75,000-per-year directors."

So that is the user-friendliness of NSLDS. I think we should concede there is a problem and attempt to fix it rather than declare victory and go home.

Ms. FLINK. Could I go back one second because Barmak just made me remember something. One of the issues that the student

advisory group has brought forward is that NSLDS needs to have the ability to interface with both the IRS and the Social Security Administration to verify SSN and names. And we have been told that we cannot do that. All they will tell us is if we have the right name or not. It will not give us back the right data.

So that as an institution, we are then left with the responsibility of finding the guarantor or lender that has submitted the data, and then we all go back and forth and try to decide what we should submit. To me, if you have these other systems within the Federal Government, they should talk to each other and make the adjustments. It should not be put on our offices to try to resolve it with the guarantee agencies and other servicers involved in the process. But it is this turfdom that frustrates me. You asked me what frustrates me as an institution, and that is one. If the systems exist to verify it, we should be able to interface and use them.

The CHAIRMAN. Does anyone else have a comment?

Yes, Ms. Blanchette?

Ms. BLANCHETTE. If I May, I will go back to Project EASI. We have not done any work specifically to look at what is going on with the Project EASI efforts, but I do have some concerns, and we have some concerns along the lines of things that were in our prepared statement and the remarks that I made this morning.

The most important thing now, we think, is for a technology architecture that will not only encompass the technical aspects of the systems but the overall mission of the Title IV student financial aid programs, how they need to fit together to meet the needs of the students and families and the schools. And from what I can discern from what I have read about Project EASI and what I have heard here this morning, it looks like it could very easily end up being another system alongside the ones that already exist. And although the vision and the overall objectives seem laudable, I am concerned that the operationalizing of this vision will not come about if it is business-as-usual in terms of developing systems and not looking at the broader picture.

The CHAIRMAN. With respect to that, we have been talking about various departments and agencies trying to communicate with each other. What kind of coordination is going on with the IRS, the Department of Education, Social Security and all those agencies that have relevant information to ensure that these operations are compatible?

Ms. BLANCHETTE. When an applicant applies for student aid, the Department is able to access INS information to see if the student is a citizen, or if the student is a noncitizen, is the student eligible for Title IV aid. The Department can check with SSA to match the Social Security number to make sure the student exists and that that information is correct.

Under the direct loan income-contingent repayment plan, as Dr. Longanecker explained earlier, to verify the students' income in order to determine what their repayment amounts should be, the Department can access IRS information.

I think the difficulty that Ms. Flink was referring to probably has to do with an occasion or occasions where there are errors in NSLDS, where a student record has been "lost" even to the Department because some data field has been entered erroneously, and

when the subsequent information comes in for the same student, it cannot match up with the information already there. So the Department has no way of knowing what the right information is without either the Department going to the guarantee agency or to the lender or to the school, or asking the school to do it.

It is a definite weakness with the current system, and it is symptomatic of the lack of integrated systems. Ideally, when information is provided to update a name, a Social Security number, an address, or any other information on a student record, it would go to all of the systems, but that is not what is occurring. So that changes are made in one part of the system, fed into the National Student Loan Data System, and then additional information will come in from another system with incompatible format or standard, and it does not match up, so you end up with duplicate records and erroneous information.

The CHAIRMAN. What I was trying to get at is do we need some sort of a super-computer here that is able to get all these different agencies to work together? What is the best program to try, to have compatibility among the Federal systems as well as compatibility among the non-Federal systems?

Ms. BLANCHETTE. I do not think there is so much a problem with the compatibility among different Federal systems. The problem that we have been addressing this morning has to do with the Department of Education's internal systems.

The chart over here—and you may not be able to read it, but there is a copy in the prepared system—lists 11 different systems, and these are not all of the systems, and these systems have subsystems.

The CHAIRMAN. So at least primarily, the problem is in the Department of Education rather than——

Ms. BLANCHETTE. In terms of what we have been talking about this morning, right, yes.

The CHAIRMAN. Is EASI going to take care of that?

Ms. BLANCHETTE. I do not know. According to the vision, if it is operationalized and implemented, it could, but as I said, I am concerned that it will end up just being another system that will operate alongside NSLDS and all the other systems, and that it will not do that.

The CHAIRMAN. Ms. Tornow.

Ms. TORNOW. If I could just comment, from my work on the task force, clearly, the objective is to integrate everything within. And I think, looking at the functional requirements which are close to be finalized, on that level, they have exceeded.

I would also, though, just like to share another reason for my skepticism about privatizing it, and that is my experience while I was on the ASA board, when it was obvious that we needed a new system. Processing had virtually broken down, with incredible failures. We went to a private source, and we contracted with an organization that promised delivery of a system within less than a year. Two years later, the system was still not in place. Three years later, they have abandoned it and started over again.

So I just do not think private industry can necessarily solve everything.

The CHAIRMAN. Ms. Flink.

Ms. FLINK. Since we are a multicampus system, one of the things that we have is what we call our data warehouse, where you store—someone asked me where this room was, and I said it is not really a room—but you store pieces of information that financial aid might need, financial systems might need—for instance, a student's SSN, name, and some data. That is a point where you can go, for instance, to verify if you have a correct address in order to send a bill out, or if you have a correct address in order to send a letter. It is a warehouse that you can draw down data from, because to have this huge system in the sky that might meet all the needs of our campuses probably would not exist, but there are certain elements that we could identify that could be stored in a warehouse that NSLDS could access, that the FAFSA process could access, that income-contingent could access, to pull down at points in time what they need.

So there is technology out there to look at ways to streamline the processes that we all deal with.

The CHAIRMAN. Mr. Fitzgerald?

Mr. FITZGERALD. Yes, Senator. This is not rocket science. We have had consultants look at this, and many agencies have gone through this process; certainly, private industry has. But for a variety of different reasons, the Department has been unable to take major steps toward integrating.

If I could, I would like to go back to a question that you asked a moment ago about how all of this affects campuses, and I think all of the witnesses today gave very accurate assessments of what kind of impact this system has on a day-to-day basis when it does not work the way American citizens and certainly students who are receiving aid have a right to demand.

Overlay that, however, with periodic breakdowns, and life can become miserable very quickly for students and parents and for institutional staff. Last year, we had difficulties, very significant difficulties, in processing FAFSAs, the student aid application, to the point where we had numbers—we disagree—but in round numbers, a million-form backlog. One institution in Rhode Island that I am familiar with literally had to keypunch, had to have families fax their FAFSAs into the aid office and keypunch the data so that they could get award letters out.

Now, the Department put inordinate resources into fixing that problem, and in large measure, it is fixed. We are still having some quality problems this year, but nowhere near what we had last year.

We are experiencing some—obviously, not the same type of problems—but some similar problems in direct loans this year that caused some institutions to delay disbursements to students, but the majority of students have received their loans, but frankly have placed institutions at great risk because they are not able to reconcile and often are not able to get their loans accepted by the Government, which means it is no longer an institutional responsibility.

This is not a problem with the direct loan program. It is a problem with the transition from one to another. One of the real challenges of implementing Project EASI is taking those databases that GAO has laid out and going through exactly the same process in

which we experienced problems with the FAFSA and now with direct loans. We face doing that over 10 times over, and I agree that Project EASI's goal is to create an integrated, credit-card-like system. I cannot imagine anyone in the Department would want to see in effect an 11th system, but we face very, very serious challenges as we move ahead and try to achieve the Project EASI vision, and I think the real challenge is not the vision itself but how we get there, both from a technological perspective and also from a management perspective.

The CHAIRMAN. Mr. Nassirian?

Mr. NASSIRIAN. If I may, I am kind of concerned because—departing from the written statement I guess exposes you to the danger of missing important points—when I raised the possibility of what I called privatization or defederalization of delivery, I was not suggesting, since I was and continue to be one of the most vociferous critics of the old system, where you had a variety of private and not so private sector entities essentially going on autopilot in search of missions unrelated to those that they were, on paper in any case, entrusted with. What we are talking about is not a Government program being bid out to the highest bidder for purposes of generating profits for shareholders or generating some sort of "Six Characters in Search of an Author."

What we are searching for here is a cooperative, collaborative effort among all parties involved in the system, and the issue you raised, interestingly enough, the issue of NSLDS and do we need a super-computer to hold all of this stuff for everybody, really illustrates this.

Your ATM card, which you can put into any machine anywhere, not only in the United States now, but overseas, and access the exact dollar amount of your exact account in real time, with security, is not predicated on some super-computer sitting somewhere with every bank's real-time data being dumped into it on a second-by-second basis. Technology now allows us to have indices and to have the data in one place and one place only, and you prevent propagation of error when you do not constantly replicate that data, which is what we do here.

In the case of Ms. Blanchette's observation about Social Security and what happens with NSLDS, short of the sort of ideal, heavily distributed, properly indexed computing environment, there are some very specific steps that the Department really ought to have taken 6 months ago. This is the tragedy. While we talk about the Utopia that is just around the corner, there are some modest things we could be doing today to improve things.

The reason for the problem that Ms. Flink was citing is not so much that we do not have the right data. It has to do with the fact that you have a middle initial entered on the FAFSA, and "Carl" spelled out on the Social Security computer. And of course, Ms. Flink, when she looks at the student's I.D. and Social Security card, knows for a fact, as a deputized member of the Department of Education posse, that this is the student, and this is the Social Security number, and the information is in fact correct, but because of the sort of hard match algorithm that NSLDS has built into it and the sort of soft match algorithm that the Social Security Administration happens to have built into it, you run into this

problem where everybody has the right information, but somehow, we cannot get the student package because the computers do not match.

The CHAIRMAN. We are going to have to draw the hearing to a close, but I do have one question that I would like some help on.

I think that universities are all interested in default rates, and I am a little confused as to how the income-contingent operation works when you transfer a default from the FFEL program over to the direct lending program, or to set up an income-contingent, does that still leave that as a default on the FFEL program, but it turns into an income-contingent loan? Is it paid back out of the defaulted loan?

The reason I ask is because I am wondering how you compare the systems and how they are working with respect to defaults—if you still leave the default on the FFEL, that gives it sort of a bad name, but if all the direct loans are turned into income-contingent loans and become nondefault, are we getting an accurate comparison of the defaults of the two?

Mr. NASSIRIAN. Having been so negative about the Department, Senator, I can assure you that we have attained perfection on this matter—and I mean it. In the case of a defaulted FFEL that gets consolidated into direct lending and goes into income-contingent repayment, the default is first cleared on the FFEL side. In other words, the loan has been fully paid back. Now, the fact that the refinancier is the Federal Government is a separate matter, but if you are concerned about the FFEL being disadvantaged because it has an indelible default on its record, that does not happen on the FFEL side.

The CHAIRMAN. That does not happen; okay.

Mr. NASSIRIAN. Furthermore, when that same paper goes to the direct lending side, the Department has some very appropriate regulations in place that, despite the fact that we hold that particular borrower harmless based on our judgment as to what his or her monthly ought to be, under some very specific scenarios, an otherwise nondefaulted direct loan can in fact be counted for purposes of covert default rates on the direct lending side.

So that what we have done, for purposes of sort of lagging indicators as to whether the school is doing the right thing or perhaps whether the servicer is doing the right thing, is we actually account for the fact that there may be a whole bunch of people in direct lending who are not technically in default, but who are certainly not making any payments. Those people get counted for purposes of cohort default calculation as defaulters in direct loans.

The CHAIRMAN. OK.

Mr. NASSIRIAN. So it is one of those really rare instances where it is exactly right.

Ms. BLANCHETTE. Also, what is occurring is that to the extent that a borrower is not making payments on an FFELP loan because the borrower cannot pay at the level that he or she would have to under that program, and then is able to get a consolidated direct loan and reduce payments on the direct loan side and is actually making payments, everyone is better off. The Federal Government is collecting some money, and the borrower is improving his or her credit history.

The CHAIRMAN. Thank you.

I appreciate that information. There are always ways to throw figures around here, and I want to make sure that the ones we get give us a clear picture. Of course, the one that is interesting is that we turn all of these defaults into accounts receivable somehow. That helps the balance sheet, but I am not sure what it does in the long run, out in the out-years.

Anyway, thank you all very much. I appreciate your testimony. We may send some additional questions to you because, as you will notice, I was kind of lonely up here today. Other members may have questions, and I will give them that opportunity for at least 2 weeks.

Also, any members who wish may have their opening statements included in the record.

[The prepared statements of Senators Warner and Dodd follow:]

PREPARED STATEMENT OF SENATOR WARNER

Mr. Chairman, thank you for holding this hearing today on the management of the student aid delivery system. The purpose of Title IV of the Higher Education Act is to ensure continued access to postsecondary education for all students and to improve the quality and integrity of the student assistance programs. This hearing concentrates on the Department of Education's management and oversight of the Title IV delivery system. Title IV programs include the Federal Family Education Loan Program, the William D. Ford Federal Direct Loan Program, the Pell Grant program, and campus-based programs.

The Higher Education Act of 1965 was last reauthorized in 1992. This landmark legislation currently provides in excess of $35 billion in student assistance through its student aid programs. According to a 1997 General Accounting Office report, Federal student aid programs have succeeded in giving students access to financial assistance for education, but the Department of Education has been less successful at protecting the financial interests of the taxpayer.

It is necessary during this reauthorization process to examine the current system in order to implement methods to improve, streamline, and modernize the complex structure of the Federal student aid programs. In addition, we must find solutions to eliminate the potential for fraud, waste, and abuse in student aid programs.

Mr. Chairman, I thank you for your consideration and look forward to continuing to work with the committee in improving the Higher Education Act of 1965, especially in the Department of Education's management of the student aid delivery system.

PREPARED STATEMENT OF SENATOR DODD

Mr. Chairman, I am pleased that this committee is continuing hearings into one of the most important measures we will take up this Congress—the Reauthorization of the Higher Education Act. This morning's hearing on the Department's management of Federal student financial aid program may not be on the flashy sub-

ject, but good administration is crucial to the longterm success of any Federal programs.

Clearly managing Federal student financial aid is no easy task. There are numerous financial aid programs—Pell Grants, student loans (both direct and guaranteed), College Work-Study, graduate programs, Perkins Loans and other campus-based programs—each with their own requirements and administrative challenges. Beyond the programs, there are thousands of different participants in these programs—students, parents, colleges and universities, for-profit trade schools, banks and other lenders, servicers of loans, guarantee agencies, collection firms and private contractors that perform many administrative functions for the Department.

The Department also has to contend with another major player in this area—the Congress. We are not always helpful in these matters. The complexity of Federal financial aid programs is in no small part a creation of our own. Clearly, there are good, legitimate reasons for the array of Federal assistance available, but this does create administrative challenges. We have also changed our mind on how best to oversee these programs—the State Post-secondary Review entities and continuing efforts to repeal the 85–15 rule are perfect examples of the mixed signals we send to the Department.

However, Mr. Chairman, there is no excuse for mismanagement. Any dollar lost to waste, fraud, abuse or mismanagement is a dollar lost to students. Federal programs should be held to the highest standard in this regard. They should be the model of efficiency and responsiveness.

This has unfortunately not always been true in these programs. However, believe the Department has been one of the first to acknowledge its problems. Over the last several years, the Department has worked to improve its systems and its oversight and has been making real progress—progress not by its own measure, but recognized by the General Accounting Office and its own Inspector General.

Clearly, more must be done and I am hopeful that we can be supportive of these efforts in the reauthorization. I look forward to today's testimony.

The CHAIRMAN. Thank you all very much for very interesting testimony. I deeply appreciate the efforts you have all made to try to help us solve these problems.

The hearing is adjourned.

[Whereupon, at 12:32 p.m., the committee was adjourned.]

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